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STATE OF THE U.S. TEXTILE INDUSTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

SEPTEMBER 18, 1984

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STATE OF THE U.S. TEXTILE INDUSTRY

TUESDAY, SEPTEMBER 18, 1984

U.S. Senate,
Committee on Finance,
Subcommittee on International Trade,
Washington, DC.

The committee met, pursuant to notice, at 9:40 a.m. in room SD-215, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Danforth, Chafee, Heinz, Long, Moynihan, and Mitchell.

[The press release announcing the hearing follows:]

[Press Release No. 84-172—August 31, 1984]

Subcommittee on International Trade Announces Hearing on the State of the U.S. Textile Industry

Senator John C. Danforth (R., MO), Chairman of the Subcommittee on International Trade of the Committee on Finance, announced today that the Subcommittee will conduct a hearing on Tuesday, September 18, 1984, on the state of the U.S. textile industry under the trade agreements program.

The hearing will commence at 9:30 a.m. in Room SD-215 of the Dirksen Senate Office Building.

Senator Danforth. This is a hearing on the state of the U.S. textile industry. Does any Senator wish to make a statement before any of the witnesses are heard from?

[No response.]

Senator Danforth. If not, the first panel consists of Mr. Harry Huff of Monsanto in St. Louis, Mr. Ray Shockley of the American Textile Manufacturers Institute, and Mr. Duke Barr of the National Cotton Coalition.

STATEMENT OF W. RAY SHOCKLEY, EXECUTIVE VICE PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE, WASHINGTON, DC

Mr. Shockley. Mr. Chairman, if we may, I will lead off with your permission, sir.

Senator Danforth. Any way you want to do it.

Mr. Shockley. I am Ray Shockley, executive vice president of American Textile Manufacturers Institute, Mr. Chairman, and with me today are representatives of the American Fiber Textile and Apparel Coalition, a coalition of 21 industry and labor organizations representing the fiber textile apparel and labor parts of our industry. With me are Mr. John S. Barr III, of Louisiana, who is representing the National Cotton Council of America, Mr. Harry

Huff of Missouri, the Monsanto Co., representing the Man-Made Fiber Producers Association, Ms. Cornelia Swayze of Vermont, representing the National Wool Growers Association, and Mr. Carl Priestland from the American Apparel Manufacturers Association here in Washington. There will be a statement from the AAMA which we request permission to submit for the record, and our spokesmen today will be, in addition to myself, Mr. Huff and Mr. Barr. Also, following us will be a panel consisting of Mr. Murray Finley and Mr. Sol Chaikin. We certainly would associate ourselves with their comments because they are a part of our coalition. Mr. Chairman, our concern today is with an industry that does provide more than 2 million jobs. It is a huge customer of American agriculture, a huge customer of much of American industry, and our roots into this economy are substantial. Last year we bought 5.9 million bales of cotton coming from a base acreage of about 15.7 million bales. Since 1939, we have had a quota on the importation of raw cotton of 30,000 bales per year, which is barely a 2-day supply for us. We never complained about this quota. We understand its essentiality. We don't understand, though, why last year we imported 2.4 million bales of cotton in the form of textile and apparel products. This year we will bring in something over 3 million bales. Only about 500,000 of those are our own raw cotton that was exported and brought back as textile products. We represent an industry that has done a good job of investment by pouring its capital back into new plants and equipment. In each of the last 20 years, having invested more than $1 billion.

This year, in spite of the surge and the problems we have, $1.7 billion is anticipated to be spent. Despite all of this, despite our increasing productivity leading all American manufacturing industry at about 4 percent a year compounded over the last 10 years, we are competing with people who are operating under conditions that in many instances are not legal here. We are competing with people who are finding various ways to get around quotas and get more material in here than we, of course, can stand in our market that is actually shrinking. We have had some help from the MFA bilateral textile agreements, but not enough. The current surge of 1.8 million yards of growth in the first 7 months this year over last year is hurting us tremendously.

The costs are jobs. The costs are investments. The costs run throughout the entire economy and to every segment of our economy that is represented here this morning. We are losing ground, Mr. Chairman. One of the problems, for example, we are facing right now is the idea of a free trade zone for Israel. That would indeed move our customs borders to Israel without enforcement, bringing potential serious transshipment and other problems, and we are as a coalition opposed to this. We also are concerned that no effort is being made to expand textile markets in other parts of the world. The effort tends to be to continue to slice up the American and the European and the Canadian pies essentially without trying to see that the other countries that benefit from our trade, don't pass more of it back in benefits to their own people. Were we to expand the per capita consumption of textile products beyond the 12 pounds globally to something that is considerably above that—we are consuming 55 pounds—the problem would solve itself.

We see no emphasis there. We see no effort there. We would like to see something like that happen. Mr. Chairman, I would like now to call on Mr. Huff.

[Mr. Shockley's prepared statement follows:]

TESTIMONY OF W. RAY SHOCKLEY, EXECUTIVE VICE PRESIDENT AMERICAN TEXTILE MANUFACTURERS INSTITUTE

on behalf of the American Fiber/Textile/Apparel Coalition
Before the Subcommittee on International Trade
Committee on Finance
United States Senate

Hearing on the State of the U.S. Textile Industry

September 18, 1984

Mr. Chairman and members of the committee, on behalf of the American Fiber/Textile/Apparel Coalition (AFTAC), thank you for providing us with the opportunity to appear before you today to discuss the state of the U.S. textile industry in international trade. The American Fiber/Textile/Apparel Coalition is comprised of 21 industry and labor organizations which represent fiber, textile and apparel production in the United States. Appearing with me this morning are representatives of four other AFTAC organizations:

Mr. John S. Barr III, representing the National Cotton Council;
Mr. Harry A. Huff, of Monsanto representing the Man-Made Fiber Producers Association;
Ms. Cornelia Swayze, representing the National Wool Growers;
Mr. Carl Priestland, of the American Apparel Manufacturers Association.

I would like to begin our presentation by outlining the current situation in the textile industry and international trade as we see it. Mssrs. Barr and Huff will then address issues of special concern to their segments of the industry. All of us will be available to answer any questions you might have.

As you are aware, we are currently in the midst of a massive surge in textile and apparel imports. We estimate that by the end of this year textile and apparel imports will have more than doubled since 1980 and will be 10.3 billion sye. The actual increase this year alone through July was 44% over the same period last year. In square yard terms this year's increase is already 1.8 billion square yards and represents 180,000 job opportunities lost for American workers. Obviously, an increase of this magnitude in an industry already heavily impacted by imports presents a serious problem for the industry itself. We believe that, given the position of the fiber, textile, and apparel complex, the import surge poses a problem for the entire U.S. economy as well, including the agricultural community and domestic retailers.

Few other manufacturing industries in the United States are as widespread, employ as many people in manufacturing and agriculture, and contribute as much to the national economy as the fiber, textile, and apparel industry. Fifty states and 2.3 million Americans take part in our production. In addition to the 2.3 million employees working in the industry, we support as many as 2 million more jobs directly and indirectly in other businesses and industries. To the gross national product, we contributed $44.8 billion in 1983. This compares with $43.2 billion in autos, $36.9 billion in all primary metals, $32.9 billion in aerospace and $28.9 billion in petroleum. This is not an isolated industry, but an industry depending on and contributing heavily to the economic infrastructure around it.

As substantial consumers of agricultural products, especially cotton, wool and cornstarch, we and the agricultural community have long been closely linked. Historically, about 15 million acres of the most fertile U.S. farmland are planted in cotton. The U.S. textile industry purchases around 6 million bales, or about half of the cotton which that acreage produces. We also import no more than 30,000 bales of Upland cotton -- just a little more than the industry spins and weaves in one day -- because the U.S. government has had an import quota at that level each and every year since 1939. That limit is set to ensure a healthy domestic market for U.S. cotton and to protect the government's price support program. Let me hasten to note that our industry has been supportive of these raw cotton quotas because we believe a strong U.S. agriculture sector is essential for this country.

However, with the import surge this year, it is estimated some 2.5 million bales of overseas-grown cotton will be imported into the U.S. in the form of textile products. Last year we brought in some 1.9 million bales of foreign-grown cotton in imported textiles and apparel. It makes little sense to us that the government would prohibit direct cotton imports to preserve a healthy market for cotton but allow enormous imports of cotton in the form of textile products to affect the market. Furthermore, when the highly productive acreage devoted to cotton switches to other agricultural commodities, such as wheat, the existing supply-and-demand balance in those products is disrupted and the prices of those commodities would plummet. As a matter of fact, the more than 2 million plus acres of cotton acreage already lost to imported cotton textiles are now growing other crops and adding to excess production in many cases.

Faced with import competition since 1935, the U.S. textile industry itself has become the most efficient and productive in the world. We have invested more than $1 billion annually in new plants and equipment and this year will invest $1.7 billion. We have led other U.S. manufacturing industries in productivity growth for the past 10 years. Nonetheless, return on equity for textile plants producing apparel fabrics is 5%, well below returns for the fiber industry, apparel making, or retailing. These are clear indicators of the highly competitive nature of this industry.

Yet, even with these efforts, import competition continues to erode our markets. Our foreign competitors produce with little or no regulatory requirements, minimal labor costs, and government financial and political support often in the form of export subsidies. In short, our foreign competitors produce under conditions far different and often illegal when compared to our own. This more than anything else has enabled them to capture a growing share of our market.

Moreover, our markets are steadily being eroded by imports in spite of an international agreement and numerous quotas on textiles and apparel. The Multifiber Arrangement was originally established in 1974 to provide for the orderly development of textile trade, both for the developing and developed countries. Under that Arrangement, the U.S. has negotiated some 29 bilateral agreements with low-wage exporting countries to set quotas on goods disrupting our market. The current import growth is clear evidence that the MFA is not fulfilling this basic objective.

In an attempt to restore order, the U.S. government responded last year on December 16, by providing additional guidelines to determine when imports are disrupting U.S. markets, and this year on August 3, by amending Customs regulations on textile imports to prevent the circumvention of textile agreements. We welcome these actions. However, we do not believe that they are sufficient to stop the current surge.

We have asked the Administration to freeze imports, to negotiate country quotas with the major suppliers, and to set up an import licensing system. We believe all of these can be done administratively, without the need for new legislative authority. We have also asked the Administration to act to curb the rapid growth of textile and apparel imports constructed of fibers which are not covered by the Multifiber Arrangement. These products are made of silk, linen and ramie and are being shipped to the U.S. just to circumvent our quotas.

The most frequent excuse we hear for inaction by the Administration is that the MFA does not permit such actions. If that is the case, and we are by no means sure that it is in every instance, then the MFA must be amended as soon as possible, while there is still a viable U.S. apparel and apparel fabric industry.

If imports continue at their pace over the past 12 months, this country's domestic apparel and apparel fabric industry will be devastated by the early 1990's. And unless drastic measures are taken to relate import growth to domestic market growth, U.S. apparel and apparel fabric makers will inexorably join the ranks of the unemployed. The costs of losing such an industry are staggering: billions of dollars of investment in plants and equipment; hundreds of thousands of minority and female unemployed workers in small communities and inner cities with few, if any opportunities for work; a seriously weakened national defense dependent on foreign supplies in case of a national emergency; increased tax load on all citizens to pay for the transfer payments made to the industry's unemployed.

The situation is rapidly becoming that grave. The irony of it is that President Reagan promotes so enthusiastically the free-enterprise zones he is seeking in our inner cities. The U.S. textile and apparel industry is already the greatest engine for free-enterprise employment in our cities and does not add to anyone's tax burden. Yet, if the government fails to act to curb import growth, all of that and more will be lost.

STATEMENT OF HARRY HUFF, MONSANTO FIBERS, ST. LOUIS, MO, ON BEHALF OF THE MAN-MADE FIBER PRODUCERS ASSOCIATION, INC., WASHINGTON, DC

Mr. HUFF. Mr. Chairman, my name is Harry Huff, and I am with Monsanto from St. Louis. I am appearing today representing the Man-Made Fiber Producers Association. I appreciate this opportunity to appear before you today to discuss the state of the U.S. textile industry and the fiber industry in particular. The MMFPA members produce more than 90 percent of all the man-made fibers manufactured in the United States. This production amounted to about 8 billion pounds in 1983, accounting for approximately 75 percent of all fiber consumption in U.S. mills. Our 15 member companies employ approximately 75,000 people nationally. After several years of losses and unsatisfactory financial results, the man-made fiber industry showed some significant improvement in 1983 and the first quarter of 1984. This improvement was primarily the result of building up of inventories from the historic low following the last recession and also as a result of strong markets in our home furnishings and industrial segments of our business. However, the pipelines are now full, inventories are high, and the market is softening. Imports continue to gain a significant market share, not only gaining sales from growth in the domestic market but eroding existing markets of our member companies. As a result, shipments are trending downward, and for the second quarter we are lower than for the comparable period in 1983. We currently predict a significant drop in business in the third and fourth quarters and probably in 1985, particularly for apparel fibers. In July 1984, textile and apparel imports totaled over 1 billion square yards, the highest level of imports in the history of this country. The trade deficit in textile and apparel products for the January-July period of this year rose to $9.3 billion, a total of 13 percent of the U.S. merchandise trade deficit. July imports of man-made fiber products were 64 percent over last year's figures. For the first 6 months of this year, imports have increased 38.5 percent over last year. This is tremendous growth especially in a slow or declining market. My colleague from the apparel and textile industries can better address the impact of imports on the apparel sector. However, I would add that this sector has been particularly vulnerable to import penetrations.

The U.S. apparel industry, the largest single induced market for man-made fibers, continues to face extreme pressure from imports. While total growth in the U.S. apparel market is about 1 percent per year, imports grew by 24 percent in 1983 from 1982, and they have increased 44 percent in the first half of 1984. This growth of apparel imports obviously has had an adverse effect on the fiber industry. The past 6 years, capacity in our industry to produce man-made fibers for apparel has been reduced by 600 million pounds to approximately 6 billion pounds in 1983. If the import situation does not improve, this trend will likely continue and will probably accelerate. Several member companies have reduced capacity and production in the past 2 months, and if our projections are correct, there will be further adjustments in the near future. Meanwhile, production and capacity are rising rapidly offshore with more capacity projected to come online in the next 2 years. For example, in China, production of man-made fibers was 1.3 billion pounds in 1983. Capacity in 1985 is projected at over 2.8 billion pounds. One can only assume that these fibers will find their way into the U.S. market, most likely in the form of apparel or other finished products. As our customers in the textile sector, and consequently their customers in the apparel sector, lose market shares, the MMFPA members in turn must face the reality of a shrinking market base.

The man-made fiber industry is also encountering difficulties in export markets. In 1981 the U.S. exported approximately 1.3 billion pounds of man-made fibers, approximately 16 percent of our total shipments. We estimate that in 1984 this figure will be reduced to around 550 million pounds or around 7 percent of our total shipments. This reduction has been caused by the rising dollar and an increase in foreign capacity, often with Government subsidies. This has certainly contributed to the nearly $10 billion fiber textile merchandise deficit for the first half of 1984.

I believe that this industry can compete with any fiber producers in the world. MMFPA members utilize state of the art production techniques, coupled with annual investments of several hundred million dollars in research and development and capital investment. This industry, as well as those represented by my colleagues here today, is committed to maintaining a competitive edge and will continue these efforts as long as possible. If the current trends continue, however, we will see an acceleration of the decline of the entire fiber textile apparel complex with the resulting loss of billions of dollars annually to the U.S. economy. Mr. Chairman, I appreciate this opportunity and thank you very much.

Senator DANFORTH. Thank you, Mr. Huff. Mr. Barr.

[Mr. Huff's prepared statement follows:]

STATEMENT OF HARRY R. HUFF
THE MAN-MADE FIBER PRODUCERS ASSOCIATION, INC.
IN REGARD TO THE STATE OF THE U.S. TEXTILE INDUSTRY
SEPTEMBER 18, 1984

Mr. Chairman and members of the Committee, my name is Harry Huff. I am Director of Planning and Administration of the Monsanto Fibers and Intermediates Company, St. Louis, Missouri, and I am here today representing the Man-Made Fiber Producers Association. I appreciate the opportunity to appear before you to discuss the state of the U.S. textile industry and the fiber industry in particular.

MMFPA members produce more than 90 percent of the man-made fibers manufactured in the U.S. This production amounted to about 8 billion pounds in 1983, accounting for approximately 75 percent of all fiber consumption in U.S. mills. Our 15 member-companies employ approximately 75,000 workers nationally.

After several years of losses and unsatisfactory financial results, the man-made fiber industry showed significant improvement in 1983 and the first quarter of 1984. This improvement was primarily a result of building up of inventories from a historic low following the last recession, and also as a result of strong markets in the home furnishings and industrial segments of our industry. However, the pipeline is now full, inventories are high, and the market is softening.

Imports continue to gain significant market share -- not only gaining sales from growth in the domestic market, but eroding existing markets of our member-companies. As a result, shipments are trending downward and for the second quarter were lower than for the comparable period in 1983. We currently predict a significant drop in business in the third and fourth quarters and probably in 1985, particularly for apparel fibers.

In July 1984, textile and apparel imports totaled over 1 billion yards, the highest level of imports in the history of this country. The trade deficit in textile and apparel products for January-July of this year rose to $9.3 billion, a total of 13 percent of the U.S. merchandise trade deficit. July imports of man-made fiber products were 64 percent over last year's figure. For the first six months of this year, imports have increased 38.5 percent over last year. This is tremendous growth, especially in a slow or declining market.

My colleagues from the apparel and textile industries can better address the impact of imports on the apparel sector. However, I would add that this sector has been particularly vulnerable to import penetration. The U.S. apparel industry, the largest single end-use market for man-made fiber, continues to face extreme pressure from imports. While total growth in the U.S. apparel market is 1 percent per year, imports grew by 24 percent from 1982-83 and have increased to 44 percent in the first half of 1984. This growth of apparel imports obviously has had an adverse effect on the fiber industry. In the past six years, capacity in our industry to produce man-made fibers for apparel has been reduced by 600 million pounds to a total of 6 billion in 1983. If the import situation does not improve, this trend will likely continue and may accelerate. Several member-companies have reduced capacity and production in the past two months and if our projections are correct there will be further adjustments.

Meanwhile, production and capacity are rising rapidly off-shore, with more capacity projected to be coming on line in the next two years -- particularly in

China. Chinese production of fiber was 1.3 billion pounds in 1983. Capacity in 1985 is projected at over 2.8 billion pounds. One can only assume that these fibers will find their way into the U.S. market, most likely in the form of apparel and other finished products. As our customers in the textile sector and consequently their customers in the apparel sector lose market share, MMFPA members in turn must face the reality of a shrinking market base.

The man-made fiber industry is also encountering difficulties in export markets. In 1981, the U.S. exported approximately 1.3 billion pounds of man-made fibers, approximately 16 percent of our shipments. We estimate that in 1984 this figure will be reduced to 550 million pounds, or 7 percent of total shipments. This reduction has been caused by a rising dollar and an increase in foreign capacity, often with government subsidies. This has certainly contributed to the nearly $10 billion fiber/textile/apparel merchandise deficit for the first half of 1984.

I believe that this industry can compete with fiber producers in any country. MMFPA members utilize state-of-the-art production techniques, coupled with annual investments of several hundred million dollars in research and development, and capital investment. This industry, as well as those represented by my colleagues here today, is committed to maintaining a competitive edge and will continue these efforts as long as possible. If current trends continue, however, we will see an acceleration of the decline of the entire fiber/textile/apparel complex with a resulting loss of billions of dollars annually to the U.S. economy.

Again, Mr. Chairman, I appreciate this opportunity and I would be pleased to respond to any questions you may have.

STATEMENT OF JOHN S. BARR III, PRESIDENT, NATIONAL COTTON COUNCIL, MEMPHIS, TN

Mr. **Barr.** Good morning, Mr. Chairman and members of the committee. I am John S. Barr III, a cotton farmer from Louisiana, presently serving as president of the National Cotton Council in whose behalf I appear here today. The council, as many of you know, is the central organization of the cotton industry representing producers, processors, and handlers—all the way across from the Carolinas to California. The matter before the committee is having a major impact on more than one part of our industry. My written testimony includes some charts to illustrate the numbers which I will use. With economic recovery in 1983, the net domestic consumption of U.S. cotton jumped to 7.7 million bales, and this year it is running at an annual rate of 8.5 million. That is our entire market. The amount of that market supplied by U.S. textile mills unfortunately has dropped below 6 million bales with the gap supplied by imports having widened dramatically since 1982. During the 1972 to 1984 period, cotton textile imports increased an average of 9.1 percent a year, and I will refer to this as the long-term import growth rate. To show the more recent acceleration in textile import growth, let's look at the beginning of the 1980's when cotton textile imports were growing at an average annual rate of 16.1 percent. Assuming that import growth recedes to the long-term annual rate of 9.1 percent, the amount of the U.S. market supplied by domestic mills would decline to 4.2 million bales by 1989.

If nothing is done, however, and the more recent annual growth rate of 16.1 percent continues, then the amount supplied by domestic mills would drop to 2.5 million bales. Assuming that domestic consumption stays above the historical trend, the long-term import growth rate would result in imports taking over our entire domestic market in 12 years. The most recent growth rate would result in a total takeover in just 7 years. But look at what has happened during the last four quarters. Cotton textile imports have soared an astounding 32 percent. If that growth rate is allowed to continue, our domestic market will be gone in just 4 years.

Clearly, the recent growth rates in textile imports are inconsistent with the U.S. textile industry's survival. The situation is almost as serious for the U.S. raw cotton industry as it is for the textile industry. Research indicates about one out of every five bales of cotton contained in foreign textiles and shipped into the United States is U.S. cotton. The other four are foreign grown. This means that by 1989 U.S. cotton farmers would lose a market of about 1.3 million bales at the lower import growth rate but lose a market of 2.6 million bales at the more recent growth rate.

For the producer, the most painful symptom of shrinking markets is to suppress cotton prices. If cotton textile imports had grown only at the average quota growth rate of 6 percent per year in the 1982–83 crop years, it is likely that the 1983 farm price would be approximately 76 cents a pound instead of the 66 cents that it actually was. If so, the 12.7 million bales actually sold would have brought an additional 10 cents a pound, or $48 a bale. This means the total loss of cotton actually sold exceeded $600 million.

Furthermore, total sales would have increased by more than a million bales, which at 76 cents a pound makes the loss on cotton not sold reach $400 million. Therefore, the total revenue loss to cotton farmers from the avalanche of cotton textile imports may have approached $1 billion in 1983 alone, and I might suggest to you in light of current discussion of Federal deficits that this cheap price certainly is reflected in direct Government cost in terms of deficiency payments.

Cotton producers are making a strong effort to be more competitive. We have a market-oriented farm program, and we are investing some $20 million per year of our own money in advertising, promotion, research, and other market development programs. We have had considerable success especially in the domestic market in regaining apparel and other markets, but unless something is done to moderate the textile import growth, it appears we will have built markets for the benefit of only foreign cotton growers. Thank you very much for asking me to be here today, and I have just a few statistics which my colleague, Mr. Shockley, says that he forgot to include in his testimony. In addition to that 6 million bales of cotton that the U.S. textile industry uses, they also use the entire wool clip of the United States and some 200 million pounds of cornstarch. Thank you.

[Mr. Barr's prepared statement follows:]

Testimony Of John S. Barr, III
President, National Cotton Council
before the
International Trade Subcommittee
of the
Senate Committee on Finance
September 18, 1984

I am John S. Barr, III, a cotton farmer from Oak Ridge, Louisiana, presently serving as president of the National Cotton Council in whose behalf I appear. The Council is the central organization of the cotton industry, representing producers, processors, and handlers of cotton from the Carolinas to California.

The matter before the committee is having a major impact on more than one part of our industry, and to better illustrate I will be referring to charts attached to my written testimony.

In Chart I, the solid upper curve is what we call cotton's net domestic consumption. It represents U.S. mill consumption plus textile imports of yarn, cloth, and manufactured products, and minus textile exports. It approximates U.S. retail sales on off-take of cotton from 1973 to date.

With economic recovery in 1983, net domestic consumption jumped to 7.7 million bales and this year is running at an annual rate of 8.5 million. This is the highest in 12 years, and clearly reflects an improving retail demand for cotton products.

As depicted by the lower curve, the amount of that market supplied by U.S. textile mills -- unfortunately — has dropped below 6 million bales, with the gap supplied by imports having widened dramatically since 1982.

During the 1973-84 period, cotton textile imports increased an average of 9.1% a year. I will refer to this as the "long-term" import growth rate.

To show the more recent acceleration in textile import growth, let's look at the beginning of the '80's when cotton textile imports were growing at an average annual rate of 16.1%.

What are some implications of this growth in cotton textile imports? Let's optimistically assume that net domestic cotton consumption stays well above the historical trend, and goes from the 8.5-million-bale level of 1984 to 9 million bales by 1989. (This is the dotted extension of the upper curve.)

Assuming that import growth recedes to the long-term annual rate of 9.1%, the amount of the U.S. market supplied by domestic mills would decline to 4.2 million bales by 1989. If nothing is done, however, and the more recent annual growth rate of 16.1% continues, then the amount supplied by domestic mills would drop to 2.5 million bales. (These are the two extensions of the lower curve.)

To put it another way, the long-term growth rate would result in imports totally taking over the domestic market in twelve years. The most recent growth rate would result in total takeover in just seven years.

But look what's happened during the last four quarters. Cotton textile imports have soared an astounding 32%. If that growth rate is allowed to continue, the domestic market will be gone in four years.

Clearly, the recent growth rates in textile imports are inconsistent with the U.S. textile industry's survival.

The situation is almost as serious for the U.S. raw cotton industry as it is for the textile industry.

Consider again the net loss in U.S. cotton markets caused by textile imports. Research indicates that U.S.-grown cotton comprises only about 22% of cotton textile imports. So this means only about one out of every five bales of cotton contained in foreign textiles is U.S.-grown. The other four are foreign-grown. This means that by 1989, U.S. cotton farmers would lose a market for about 1.3 million bales at the lower import growth rate, and about 2.6 million at the more recent growth rate.

For the producer, the most painful symptom of shrinking markets is depressed cotton prices. Chart 2 shows there is a close relationship between total cotton offtake relative to U.S. supply and the average producer prices for cotton. Over the 11 years shown here, the association between these two looks suspect only in 1982. Average price did not fall that year because the U.S. loan rate put a floor under prices for a good part of the crop year. Based on historical relationships, average price probably would have fallen as shown by the dotted lines if the loan program had not been available.

If cotton textile imports had grown only at the Reagan Administration's target of 6% per year in the 1982 and '83 crop years, it is likely that the 1983 farm price would have approximated 76 cents a pound instead of the 66 cents it actually was. If so, the 12.7 million bales actually sold would have brought an additional 10 cents a pound or 48 dollars a bale. This means the total loss on cotton actually sold exceeded 600 million dollars.

Furthermore, total sales would have increased by more than 1 million bales, which at 76 cents a pound makes the loss on cotton not sold reach 400 million dollars. Therefore the total revenue lost to cotton farmers from the avalanche of cotton textile imports may have approached one billion dollars in 1983 alone.

Cotton producers are making a strong effort to be more competitive. We have a market-oriented farm program, and we are investing some 20 million dollars per year of our own money in advertising, promotion, research, and other market development programs. We have had considerable success, especially in the domestic market, in regaining apparel and other markets. But unless something is done to moderate textile import growth, it appears we will have built markets for the benefit of foreign cotton growers.

Thank you for providing us with the opportunity to bring this serious problem to your attention.

Chart 1

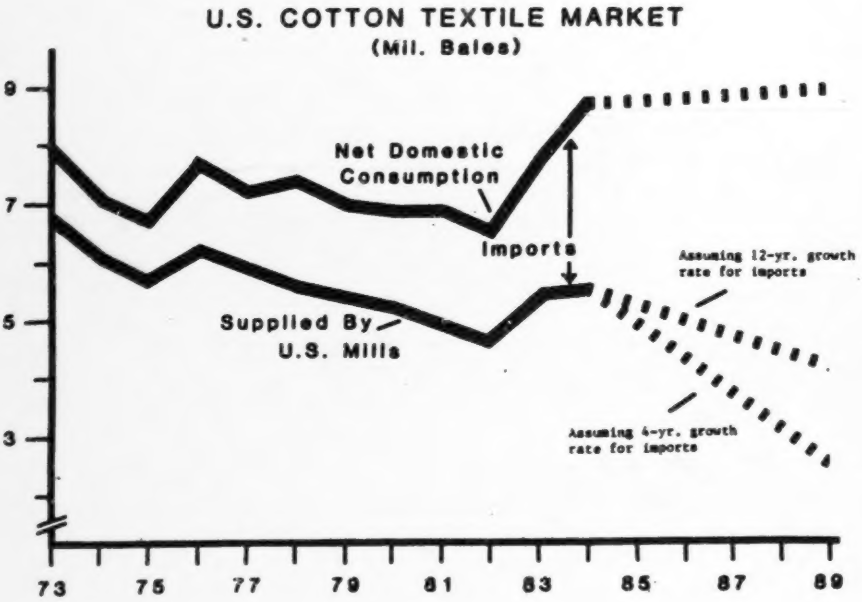
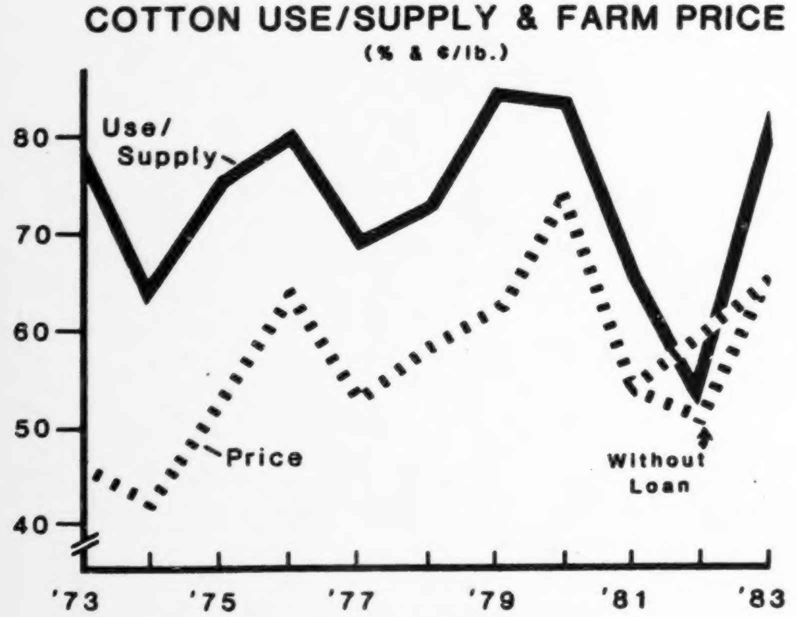


Chart 2



Senator **Danforth**. Senator Heinz.

Senator **Heinz**. Mr. Chairman, I have only one brief question, which I will direct at Ray Shockley. I think most of us who have seen what has happened to the textile and apparel garment industry over the years recognize the concerns that you and the others have expressed. What would be, as a practical matter, your first preference that we—Government—whether it be the administration or the Congress do about it?

We are about 7 weeks from a Presidential election, and we are about 3 weeks from the end of the Congress. In that context, what do you suggest—what are you urging most?

Mr. **Shockley**. Senator, in that context we would urge that order be brought to the system, and one way to do it would be to freeze imports at the levels of 1983, which were record levels. Another way would be to put some sort of system in place on a global basis that would allow access to this market by those developing countries that are assured access under the MSA and frequently are penalized by the huge share of the market that the large ones like Korea, Taiwan, Hong Kong, Japan, and China have. That would be another way to do it. Some sort of a system of global control, but we think that the freeze is needed. We are also very seriously concerned about something that the Congress can do now, and that is the Israeli free trade zone area. We see this as a very serious problem for our industry. We appreciate the help that some members of this committee are offering and giving on this. We are very concerned that this would be a very severe step backward for us, and we certainly would like to see textiles and apparel exempt from that. We think if you give it to Israel, then who is next? And how can you then say when another country comes along and wants a free trade zone that, no, we are not going to give it to you?

Senator **Heinz**. Mr. Chairman, thank you very much.

Senator **Chafee**. Senator Long. Senator Moynihan. Senator Mitchell.

Senator **Mitchell**. Mr. Shockley, I would like to ask you, first, whether you would conclude that the increase in imports in the textile and apparel industry has exceeded the rate of growth of the domestic market in those products.

Mr. **Shockley**. Senator Mitchell, it has indeed exceeded the rate of growth. The market has been going at an annual rate of about 1.5 percent. Before this surge, it was going at about 8 percent. Now, last year—I am talking about imports versus the market—against the 1.5 percent growth, imports increased 25 percent last year. I think any projection will show that they will increase 40 percent this year. Per capita fiber consumption in this country peaked at 60 pounds in 1973, and it has declined ever since then. It is now in the range of about 54 pounds. So, the real offtake of all fibers is down, but the share of imported fibers produced in other countries has increased enormously. So, the whole structure is suffering.

Senator **Mitchell**. Let me see if I understand you because you used several figures. Is it your understanding that the domestic market—and I would like you to specify what domestic market you are talking about—grew last year by about 1.5 percent?

Mr. **Shockley**. Yes, sir, probably that, Senator. It has a historic range over the last 10 years of no more than 1.5 percent. It might not have grown actually that much last year—if you look at the historic base. Now, last year was a recovery year from the recession when the industry was building inventory, and production did go up. But now, we are building inventory much, much faster than we are having offtake of our product.

Senator MITCHELL. And what domestic market are you talking about? Could you be specific there?

Mr. SHOCKLEY. We are talking about textiles, Senator, that are purchased for use in the United States from all sources.

Senator MITCHELL. I see. And what rate of growth was there for imports of those products last year?

Mr. SHOCKLEY. Last year imports grew 25 percent across the board. In some products, they grew much larger than that, and some, of course, less. This year we are looking at a 40-percent increase, and we think that conservative. We will bring in 10 billion yards at least this year as opposed to 7.4 billion last year, which was a record, as opposed to 4.9 billion in 1980, which is a doubling in a very short period of time.

Senator MITCHELL. All right. Now, could you tell me what were the figures regarding growth—comparable figures—in the previous year? In 1982?

Mr. SHOCKLEY. The growth in imports in 1982?

Senator MITCHELL. And the market.

Mr. SHOCKLEY. Senator, I will check this and supply it for the record. My colleague says it was 3 percent, and we will verify that.

Senator MITCHELL. That is imports?

Mr. SHOCKLEY. Yes, sir.

Senator MITCHELL. And what was the growth of the domestic market in 1982?

Mr. SHOCKLEY. In 1982 the market probably wasn't growing at all because there was a very deep recession.

Senator MITCHELL. So, would it be a fair conclusion that the domestic market experienced no growth or perhaps even declined in 1982?

Mr. SHOCKLEY. Yes, sir.

Senator MITCHELL. All right. Now, you will recall in 1980 a commitment was made by then-candidate Reagan to the industry regarding imports and domestic growth. Could you describe what your understanding of that agreement was—or that commitment was?

Mr. SHOCKLEY. Our understanding was that the commitment, one, recognized at that point there were 2.3 million textile apparel jobs in the United States, and that those jobs should be kept here. And, two, the way to do that was to relate the growth of imports to the growth of the domestic market.

Senator MITCHELL. And what did you understand by relating? That is, did you understand it to mean holding the increase in imports roughly comparable to the level of increase of the domestic market?

Mr. SHOCKLEY. Yes, sir; we did understand that. Senator, if I might just add there one point. The multifiber arrangement exists as a viable instrument internationally on the basis that it gives the truly developing countries access to the growth of the developed country markets and conversely it gives the developed country industry also access to that growth. We never asked that imports be stopped, and if we did, we have done a miserable job.

Senator MITCHELL. So, in fact, the growth in imports has been far more rapid than the growth in the market to the extent that any growth has occurred?

Mr. SHOCKLEY. Yes, sir.

Senator MITCHELL. Right. Mr. Huff, do you agree or disagree with any of the answers given by Mr. Shockley to my questions?

Mr. HUFF. I agree. As a matter of fact, the penetration of imports as a percentage of the total apparel offtake in the United States has gone in the last 2 years from around 34 percent of all the apparel offtake furnished by imports in 1983, and it is around 41 percent for the first 8 months of 1984. So, you can see the actual penetration has gone up.

Senator MITCHELL. And do you agree that there was a commitment made in 1980? Are you aware of that?

Mr. HUFF. Yes.

Senator MITCHELL. And at least as far as the figures that you have given me, the only relationship between imports and growth is that imports grew 20 times faster than the domestic market in 1983.

Mr. HUFF. That has been the result.

Senator MITCHELL. Mr. Barr, do you agree or disagree with the answers given by Mr. Shockley and Mr. Huff to my questions?

Mr. BARR. Yes, sir; I agree. If those figures seem to differ somewhat from my testimony, my testimony related only to cotton textiles. They are talking about the entire textile industry.

Senator MITCHELL. With respect to cotton textiles, has there been a substantial growth in the domestic market?

Mr. BARR. Tremendous. There has been a growth in the domestic market in cotton textiles, but the imports have been far greater than the growth in the market.

Senator MITCHELL. They have?

Mr. BARR. Yes, sir.

Senator MITCHELL. Fine. Do you have the figures for 1983 and 1982?

Mr. BARR. If you will notice on the second page of my testimony, there is a chart. We can extrapolate from that. It looks like 1982 was about the low of our consumption. It started growing rapidly from that point.

Senator MITCHELL. If it is in your testimony, Mr. Barr, I won't take up the time of the other committee members. I will get it out of that. I thank you, Mr. Chairman.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. Gentlemen. of course, what you are presenting here is a classic problem that we deal with all the time in a host of industries. But I think that in your industry it is somewhat different, for instance, from the problems that we wrestle with in the steel industry. That is, I don't think anybody can say that in your industry we are dealing with extremely profitable industries or extremely high paid workers. Where do the textile workers rank on the wage scales of America? I would say in the lower part, are they not? They are certainly not in the higher part of the industrial ranking.

Mr. **Shockley**. Senator, we can supply that precisely for the record. I would say that our average wage is lower in the textile industry and is even a bit lower in the apparel industry, in terms of manufacturing industries.

In terms of other industries, such as retailing and others, our wage is much higher.

Senator **Chafee**. I would appreciate it if you could supply that, and also if you could make some comparisons. Put it in some comparative figures so that we are working from a common base. In other words, give us figures on what the steelworkers make, what the autoworkers make, and where you rank compared with, say, metalworkers, and so forth.

[The information requested follows:]

ESTABLISHMENT DATA
EARNINGS
NOT SEASONALLY ADJUSTED

C-3. Average hourly earnings, excluding overtime[1] of production workers on manufacturing payrolls

Industry	Aug. 1983	Sept. 1983	July 1984	Aug. 1984[p]	Sept. 1984[p]
Manufacturing	$8.44	$8.52	$8.82	$8.78	$8.84
Durable goods	8.98	9.07	9.32	9.29	9.35
Lumber and wood products	7.49	7.55	7.71	7.72	(2)
Furniture and fixtures	6.46	6.51	6.70	6.68	(2)
Stone, clay, and glass products	8.81	8.91	9.10	9.07	(2)
Primary metal industries	10.85	10.86	10.94	10.92	(2)
Fabricated metal products	8.75	8.80	8.97	8.92	(2)
Machinery, except electrical	9.23	9.27	9.55	9.53	(2)
Electrical and electronic equipment	8.34	8.41	8.65	8.69	(2)
Transportation equipment	11.03	11.19	11.56	11.52	(2)
Instruments and related products	8.24	8.30	8.59	8.60	(2)
Miscellaneous manufacturing	6.63	6.64	6.86	6.79	(2)
Nondurable goods	7.74	7.77	8.09	8.04	$8.09
Food and kindred products	7.74	7.74	8.02	7.92	(2)
Tobacco manufactures	10.07	9.74	11.48	10.53	(2)
Textile mill products	5.91	5.94	6.20	6.22	(2)
Apparel and other textile products	5.25	5.29	5.43	5.43	(2)
Paper and allied products	9.48	9.52	9.95	9.94	(2)
Printing and publishing	8.80	8.87	9.05	9.09	(2)
Chemicals and allied products	10.22	10.27	10.70	10.68	(2)
Petroleum and coal products	12.61	12.76	12.83	12.70	(2)
Rubber and misc. plastics products	7.66	7.67	7.94	7.92	(2)
Leather and leather products	5.40	5.45	5.61	5.55	(2)

[1] Derived by assuming that overtime hours are paid at the rate of time and one-half.

[2] Not available.

[p] = preliminary.

NOTE: Establishment survey estimates are currently projected from March 1983 benchmark levels. When more recent benchmark data are introduced, all unadjusted data from April 1983 forward are subject to revision.

C-4. Average hourly and weekly earnings of production or nonsupervisory workers[1] on private nonagricultural payrolls by major industry, in current and constant (1977) dollars.

Industry	Average hourly earnings					Average weekly earnings				
	Aug. 1983	Sept. 1983	July 1984	Aug. 1984[p]	Sept. 1984[p]	Aug. 1983	Sept. 1983	July 1984	Aug. 1984[p]	Sept. 1984[p]
Total private:										
Current dollars	$7.95	$8.12	$8.32	$8.30	$8.43	$280.64	$286.64	$296.19	$294.65	$299.27
Constant (1977) dollars	4.82	4.90	4.91	4.85	(2)	170.08	172.99	174.85	172.31	(2)
Mining:										
Current dollars	11.25	11.33	11.57	11.57	$11.65	479.25	488.32	497.51	504.45	$511.44
Constant (1977) dollars	6.82	6.84	6.83	6.76	(2)	290.45	294.70	293.69	295.00	(2)
Construction:										
Current dollars	11.86	12.04	11.97	12.00	$12.12	450.68	456.32	462.04	462.00	$469.04
Constant (1977) dollars	7.19	7.27	7.07	7.02	(2)	273.14	275.39	272.75	270.18	(2)
Manufacturing:										
Current dollars	8.78	8.89	9.18	9.14	$9.22	352.96	362.71	369.95	369.26	$375.25
Constant (1977) dollars	5.32	5.37	5.42	5.35	(2)	213.92	218.90	218.39	215.94	(2)
Transportation and public utilities:										
Current dollars	10.69	10.88	11.18	11.17	$11.28	422.26	428.67	447.20	442.33	$447.82
Constant (1977) dollars	6.48	6.57	6.60	6.53	(2)	255.92	258.70	263.99	258.67	(2)
Wholesale trade:										
Current dollars	8.54	8.62	8.97	8.93	$9.02	329.64	333.59	348.04	346.48	$349.98
Constant (1977) dollars	5.18	5.20	5.29	5.22	(2)	199.78	201.32	205.45	202.62	(2)
Retail trade:										
Current dollars	5.73	5.78	5.87	5.83	$5.90	174.77	172.82	180.21	178.40	$177.59
Constant (1977) dollars	3.47	3.49	3.47	3.41	(2)	105.92	104.30	106.38	104.33	(2)
Finance, insurance, and real estate:										
Current dollars	7.24	7.33	7.60	7.60	$7.80	261.38	264.61	278.92	276.64	$285.48
Constant (1977) dollars	4.39	4.42	4.49	4.44	(2)	158.40	159.69	164.65	161.78	(2)
Services:										
Current dollars	7.24	7.37	7.56	7.53	$7.70	238.92	241.00	250.24	248.49	$252.56
Constant (1977) dollars	4.39	4.45	4.46	4.40	(2)	144.80	145.44	147.72	145.32	(2)

[1] Data relate to production workers in mining and manufacturing; construction workers in construction; and nonsupervisory workers in transportation and public utilities; wholesale and retail trade; finance, insurance, and real estate; and services.

[2] Not available.

[p] = preliminary.

NOTE: The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is used to deflate the earnings series. Establishment survey estimates are currently projected from March 1983 benchmark levels. When more recent benchmark data are introduced, all unadjusted data from April 1983 forward are subject to revision.

Mr. SHOCKLEY. I would be happy to do that, Senator. We also could supply information that we haven't given on who is working in this industry. The ethnic minority is approximately 20 percent in textiles; and apparel about 33 percent, that 80 percent and more in apparel are female, and in textiles they are 40 percent and more. Many of these people, particularly in the apparel industry, are entry level skills. When they lose their jobs, they go on transfer payments. They become part of the human misery scale that is already devastating. For example, in New York State——

Senator CHAFEE. Well, Mr. Shockley, I am with you. You don't have to convince me, but we are limited in time here. You have got a good case there, I think. Now, you spoke in opposition to the Israeli freetrade zone. I believe that was approved here unanimously, although we had some misgivings about specific products. And somebody on the committee can correct me, but as I recall the STR, Ambassador Brock urged us not to make any specific restrictions on that because he thought the overall arrangement was good for U.S. exports. If there were specific problems that we had—for instance, I had some misgivings on imports of gold chain jewelry—and Ambassador Brock indicated that that could be taken up subsequently on individual negotiations with Israel in the context of the freetrade zone. Is that the way other members recall it?

Senator MITCHELL. Just to make the record clear, Senator Chafee, I offered an amendment to exempt textiles and footwear which was defeated in the committee. And then the committee approved, I believe, by unanimous or nearly unanimous vote the free trade zone.

Senator CHAFEE. So, what is your concern about the Israeli free trade zone, Mr. Shockley? That is something that is before us right now, as you know, on the floor of the Senate. Are you concerned that this will set a precedent or that, in this specific matter, that there will be textiles coming through that route?

Mr. SHOCKLEY. We are concerned about the idea of transshipments, when you consider where Israel sits on the trade route of the world—of the Middle East, of the Indian Ocean, of North Africa. The fact that textiles are such a huge part of our whole trade thing. Senator Chafee the big lobbying effort here at this point is fighting the textile/apparel exemption, which seems to telegraph to us that we are probably the biggest and most important slice of pie in that whole package. We are also concerned that it is going to move our customs border to Israel without any enforcement.

Senator CHAFEE. I don't think any of us in considering legislation for the Israeli freetrade zone looked on it as being a route for imports to come into Israel and then to come here duty-free. If that was the arrangement, I didn't understand it. I thought it was just for Israeli manufactured products.

Mr. SHOCKLEY. Senator, transshipment is one of the very largest problems that we have in the whole trade area at this time. And it is all over the world. The customs regulations in one sense tried to deal with a phase of that, but if you set the freetrade area up, we believe that it will happen. Mr. Nehmer, who is an economist, has done some work on that, and he will testify later with more specifics, but we see it as a very serious problem for us, and we don't believe that the U.S. Government can successfully stop with just granting Israel a freetrade area. The time will come when someone else with a bigger problem and maybe a bigger stick over our heads comes in and asks for the same thing.

Senator CHAFEE. Let me ask you. In your testimony, Mr. Shockley, you said that the U.S. textile industry purchases around 6-million bales or about half of the cotton which U.S. acreage produces.

Mr. SHOCKLEY. Yes, sir.

Senator CHAFEE. In other words, the textile industry in the United States takes about half the cotton production in the United States.

Mr. SHOCKLEY. Right.

Senator CHAFEE. What happens to the rest of it? Mr. Barr, maybe you can address this.

Mr. SHOCKLEY. I might take a quick shot at it, and that is that the rest of it—or most of the rest of it—is exported or some of it is used for other purposes here, but most of it is exported. We are, though, a residual supplier of cotton to the rest of the world. We sell it when no one else can offer a better price. The U.S. textile industry is the only reliable customer. Were that not the case, why has the Government every year since 1939 limited the importation of upland foreign cotton to 30,000 bales a year? It recognizes that when cotton acreage isn't growing cotton, it is growing wheat and corn and soybeans, and that 1,900,000 foreign bales that we brought in last year in the form of textiles meant that much U.S. cotton acreage was displaced. That land did not lie fallow between California and the Carolinas, it shifted to other crops.

Senator CHAFEE. Now, what do you say to the panel—the third panel—of Mr. Hays from the major department stores and Mr. Gluckson from the Association of Exporters and Importers and the president of Zayre? All of them are going to say this is a marvelous thing for the consumer, that he is getting a product—a quality product—at a lower price, and that is what makes the world go around.

Mr. SHOCKLEY. Senator, we in the first place don't subscribe to that.

Senator CHAFEE. No, I know you don't.

Mr. SHOCKLEY. But we are aware of the markups that the consumer does not get advantage of. We are concerned about that fact. We have never tried to stop textiles from coming in. We have tried to have an orderly system, and I would say to our retail customers and our good friends that it is in their interest to have a strong domestic textile industry. They don't want to be in the hands of cartels that can form in the Pacific and elsewhere. Remember that textiles and apparel are an essentiality of life. You aren't dealing with a frivolous item. At some point in time——

Senator CHAFEE. They are going to dismiss the argument about cartels, though. They are going to talk about Taiwan and Korea and Singapore and Sri Lanka—how are they going to get together on a cartel?

Mr. SHOCKLEY. I think that the history of OPEC is one answer to that, Senator.

Senator CHAFEE. I think you need a stronger argument than that, Mr. Shockley. I am sympathetic with what you are trying to do, but these folks are going to present a very, very strong argument in behalf of the consumer.

Mr. SHOCKLEY. We don't think that the argument flies. That is, the argument on behalf of the consumer. Now, most people are aware of the fact that you go into the average store and you buy an imported shirt versus a domestic shirt of equal quality, and the price is approximately equal. There may be some fractional difference. The consumer is not benefiting to the extent that people are led to believe that he is, and I think that that can be clearly demonstrated.

Senator CHAFEE. Then why are they buying these imports?

Mr. SHOCKLEY. I think if you can buy an item and mark it several times more than you can one domestically, I don't blame them for buying it. I say that our Government should——

Senator CHAFEE. No, I don't mean that. Why is the public buying it?

Mr. SHOCKLEY. Because it is offered, and because it is there. You see in many stores—not all—but many retail stores are heavily tilted toward domestic products, but you will see in most stores, on most racks—apparel racks—in women's wear particularly, more imported materials offered than domestic material.

Senator CHAFEE. Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, you have a long morning ahead of you, and I won't prolong it. The questions have been good and the responses have been very helpful to me. If I may, I will just speak to Mr. Shockley as the representative of this panel. As my colleagues here have heard, I was one of the persons who negotiated the long-term cotton textile agreement in 1962 for President Kennedy. I also see Stanley Nehmer, who was a young diplomat at the time, and is still young but no longer a diplomat——[Laughter.]

Senator MOYNIHAN. And I remember those concerns very well. Would you remember by any chance what we imported in 1962 or 1963 in square yards equivalent?

Mr. SHOCKLEY. Yes, sir. Senator, it was about 1.4 billion during that general time period—somewhere between 1962 and 1964—about 1 billion 400 million square yards equivalent.

Senator MOYNIHAN. And you said to Senator Mitchell that in 1980 you brought in 4.9 billion in that 1 year alone?

Mr. SHOCKLEY. Yes, sir.

Senator MOYNIHAN. So you added 3.5 billion square yards over 18 years?

Mr. SHOCKLEY. Yes, sir. Some years it was higher than that.

Senator MOYNIHAN. But roughly speaking, in 18 years, you had an increase of 3.5 billion square yards equivalent, correct?

Mr. SHOCKLEY. Yes, sir.

Senator MOYNIHAN. Then last year imports totalled 10.3 billion square yards equivalent?

Mr. SHOCKLEY. This year they will.

Senator MOYNIHAN. So, in the 3 years 1981, 1982, and 1983, you have an additional 5.4 billion square yards equivalent in imports?

Mr. SHOCKLEY. If you had 1984 in there. Between 1980 and 1983 we added——

Senator MOYNIHAN. 1981, 1982, 1983, 1984—those 4 years. So, what you are saying is that in the 18 years that followed the long-term cotton textile agreement—then the other agreement came in such as—the multifiber agreement—there was an increase of 3.5 billion square yards equivalent in imports?

Mr. SHOCKLEY. Yes, sir.

Senator MOYNIHAN. And in 4 years of the present administration, imports have increased an additional 5.4 billion square yards equivalent. Would you say you had been let down by this administration?

Mr. SHOCKLEY. We would say we have had a huge surge of imports.

Senator MOYNIHAN. Do you say that to the chamber of commerce?

Mr. SHOCKLEY. Yes, sir.

Senator MOYNIHAN. I will bet you don't. [Laughter.]

Mr. SHOCKLEY. Yes, we do.

Senator MOYNIHAN. I will bet you don't.

Mr. SHOCKLEY. Every time we get a chance, we do, Senator.

Senator MOYNIHAN. In print? Would you send us a copy of your letters to chambers of commerce? We would like to put them in the record.

Mr. SHOCKLEY. All right. [Laughter.] Let me see if we can find some.

Senator MOYNIHAN. If you can find one. I thought you said every chance you get. I am serious. Mr. Shockley, there are real problems in this industry, and we have known about them for a very long time, and they are genuine and we share your concerns. Were you a member of the association when we were negotiating in Geneva?

Mr. SHOCKLEY. I was indeed.

Senator MOYNIHAN. So, you and I are just about the oldest people in this business? Is that right?

Mr. SHOCKLEY. And Stanley Nehmer, and Murray Finley and Chick Chaikin.

Senator MOYNIHAN. And Stanley was in the State Department. All right. We have been at this a long time. What has wrecked your industry in the last 4 years is the exchange rate, sir. The dollar—The Council of Economic Advisers in the report which the Secretary of Treasury suggested we tear up, said that the dollar is overvalued 42 percent. Now, do you suppose you can overcome a 42 percent difference in the exchange rate? That is why in the last 4 years you have had a larger increase in imports than you had in the previous 18. If you don't think so, say so, because that means we don't have to do anything about it.

Mr. SHOCKLEY. No, Senator, we agree with you that the exchange rate problem is a huge one for us. It has cost us about 700 million pounds of exports. It has been a part of this surge. And for the record, we have done some work on this. I don't have it with me. We believe that at least maybe 30 percent of this surge is attributable to the exchange rate.

Senator MOYNIHAN. 30 percent. What are exports?

Mr. SHOCKLEY. Now, exports were running at about 3 or 4 billion pounds—something like that—and they have fallen to——

Senator MOYNIHAN. Pounds?

Mr. SHOCKLEY. Pounds. About 3.5 billion pounds, and the most recent year they were down to——

Senator MOYNIHAN. Could you help me, Mr. Shockley? We were using square yard equivalent and you have turned to pounds.

Mr. SHOCKLEY. All right. We have it either in dollars or in pounds, Senator, We don't have it in yards. We can supply that for the record though.

[The following information was subsequently submitted for the record:]

Imports of Textile and Apparel

[Billion square yard equivalents]

	Total imports	Growth from previous year (percent)
1979	4.6	
1980	4.9	+5
1981	5.8	+18
1982	5.9	+3
1983	7.4	+25
1984 [1]	10.3	+39

[1] January—September at annual rate.

Senator MOYNIHAN. All right. In 1980, what were you exporting?

Mr. SHOCKLEY. In 1980, we were exporting 1.3 billion.

Senator MOYNIHAN. And what are you exporting this year?

Mr. SHOCKLEY. 700,000.

Senator MOYNIHAN. So, your exports have been cut in half?

Mr. SHOCKLEY. Yes, sir.

Senator MOYNIHAN. And your imports have, by these same numbers, doubled?

Mr. SHOCKLEY. More than doubled.

Senator MOYNIHAN. More than doubled. Well, surely, the point is that today the Government announced the largest quarterly trade deficit in history. We are dealing with an elemental problem of the mismanagement of fiscal and monetary policy in the last 4 years, and it really doesn't enlighten this committee very much if you come in and talk quotas and limits and things like that as if the fundamental problem that has hit you in the last 4 years has not been a different one all together.

Mr. SHOCKLEY. We don't dispute your contention that the trade deficit is greatly enhanced by the currency, and the currency is a huge problem for us, and we as much as anyone would like to see something done about it. We despair about it, but we have not been able to do that, Senator, and so our effort has been to try and get a handle on the program any way we can. We have certainly talked about the dollar—the fact that it is overvalued, that it has hurt us hugely, and we would certainly like to see something happen to correct that.

Senator MOYNIHAN. I thank you very much, Mr. Shockley. I just think that one segment of American business after another comes before this committee talking about very serious problems, but never mentioning what the principal origin is. So, I would like to see that correspondence you have with the Chamber of Commerce, and we would appreciate that.

Mr. SHOCKLEY. All right, sir.

Senator **Moynihan**. I am serious. I would like to see something that the textile industry has said on the subject of the management of fiscal and economic or monetary policy and exchange rates.

Mr. **Shockley**. We will be happy to, Senator.

Senator **Moynihan**. And what have you done?

Mr. **Shockley**. Our leadership has made speeches. I don't know if letters have been written to the Chamber of Commerce about it, but we have certainly——

Senator **Moynihan**. I would appreciate it, and I thank you very much. And thank you, Mr. Chairman.

Senator **Danforth**. Gentlemen, thank you very much.

The next panel Mr. Sol Chaikin, president of the International Ladies' Garment Workers' Union, and Mr. Murray Finley, president of Amalgamated Clothing and Textile Workers Union. Mr. Chaikin?

STATEMENT OF SOL C. CHAIKIN, PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, NEW YORK, NY

Mr. **Chaikin**. Thank you very much, Mr. Chairman.

Senator **Chafee**. Mr. Chaikin, you have got quite a lengthy statement here, and we have a host of witnesses. Perhaps you could summarize this, Mr. Chaikin.

Mr. **Chaikin**. I would draw your attention, Senator, and members of the committee, to the statement because I have found in my travels around the country and my discussions with Members of the Senate and members of the Executive that there is very little understanding of the industry, many of whose workers I have the privilege of representing. And we have gone to some length to explain the nature of this industry. It is one of the reasons, for example, that although we have an extraordinary community of interest with employers in the textile industry and the workers—union and nonunion—in the textile industry, why my colleague, Murray Finley, and I are testifying separately in a separate panel. Because there are very serious differentiations that must be made while we talk about the textile and apparel clothing industry. There are great distinctions between textiles and then the making of apparel—the downstream product. Permit me, Senator Chafee, to describe for a few moments the nature of our industry. To begin with, we are an industry that consists of well over 20,000 plus individual entrepreneurs who can fairly be called the epitome of small business. As a matter of fact, the competitive status is such that it could fairly be said that the making of clothing and apparel are among the last vestiges of a free democratic competitive capitalism. There are thousands of individual entrepreneurs—no single entrepreneur controls more than 1 percent of the market.

Senator **Moynihan**. Mr. Chaikin, look out, you will get in trouble with the Pope. [Laughter.]

Mr. **Chaikin**. I will be careful. The fact is that the people who are employed in this industry in the major cities—many of them are ethnic minorities and blacks, Hispanics, newly arrived Asiatics into the country as a result of the more generous application of immigration quotas. And the small communities through New England and Pennsylvania and going South and going out West, they have what we call indigenous Americans, and they represent the communities which have settled there in the recent past and 200 years ago and more. They are employed in small factories. And when these factories go down, they go down with hardly a whimper and with very little public notice, unlike steel or unlike automobiles or machine tools, which generally employ thousands of workers in any one single institution, and which have a macho image in the United States. The demise of tens and literally hundreds, and in recent years thousands, of these small factories and small business people have hardly received the death notices to which they were richly entitled.

These industries—textile, apparel, and clothing—used to employ a short decade or more ago 2.5 million workers. Today they hardly employ 1,700,000, and those who are employed work much shorter hours than indeed they would like to work or used to work. The 40-hour weeks in the textile, apparel, and clothing industries are not as frequent any more as they used to be. The average unemployment rate in these industries today is at least double the national unemployment rate, over and above the short hours which they have been working. It is a labor intensive industry, and that means that a very large portion of the selling price—the wholesale selling price of the product is paid over in direct wages. There were some questions asked about the posture of the average earnings in this industry compared to the average earnings across the country and in relationship to the higher paid workers in auto and steel. Let me say to you bluntly that the average earnings in the apparel industry—union and nonunion—across the country is under $6 an hour, with fringe benefits to match, which means that the benefits are not very generous at all. Now, you compare that with the average hourly industrial rates in the United States today of slightly over $9.10 an hour with fringe benefits attached to that kind of earning opportunity. And you compare that with the wages of steel and auto, which exceed $10, $11, and $12 per hour with the most generous fringe benefits attached to it. So, you have an idea of the relationship. No. 1, the workers in the industry are not the fat cats of American industry and by no stretch of the imagination could it be claimed that they have priced themselves out of the market.

No. 2. The average cost of clothing over the last 10 to 15 years in the United States has increased half as much as the general CPI. The industry itself has suffered tremendously because of the extraordinary import penetration of goods made overseas into the United States market.

Senator MOYNIHAN. Mr. Chaikin, could I just interrupt and ask you to repeat something I heard, but I don't think it quite registered? The difference between wage rates and CPI changes in the last period——

Mr. CHAIKIN. The difference between price increases of textile, apparel, and clothing across the board is about half the rate of increase in price——

Senator MOYNIHAN. Half the CPI?

Mr. CHAIKIN. Half the CPI over a long period—15 years or more. As a matter of fact, even during years when the import penetration was quite minimal and something which the industry could handle, the increase in price of textile, apparel, and clothing has been approximately half that of the increases in price or cost of all of the other items that have made up the price index.

Senator MOYNIHAN. Your union is well-known, as is Mr. Finley's, for its economic analysis of the industry. What do you attribute that to? That could be just a huge increase in productivity. Things like that have happened. Or is it a lag in wages?

Mr. CHAIKIN. No, it is a lag in wages because of the extraordinary competition that exists within this industry. We are not a share monopoly. We are not an oligopoly. There are no 3, 4, or 7 or 10 producers which dominate the market, and so there has been no opportunity for the employers in the industry to administer prices or to set a standard or a price point to which others repair because of the circumstances in the industry. It is labor-intensive, and you don't need much capital to get in, and a couple of bad seasons in the industry will push you right out. And there is this churning and extraordinary competition on the part of small businessmen for a share of the consumer's dollar. And that has a depressing effect—a chilling effect on the ability—first of the employers to command their price in the extraordinarily competitive marketplace and, second, downstream the ability of the workers to negotiate or to command the kind of wages which would give them a decent living. We characterize ourselves as very often representing people who could be fairly categorized as being among the working poor across the country. Let me say simply that our employers are tough and they run lean and mean. The technology in the industry is simple, and we use the state of the art technology by and large, as well as the new factories that have been set up overseas in Taiwan or Red China or Hong Kong, or any of the other suppliers. The designs, the creativity, the patterns, the size ranges are American made, American conceived, and they are sent overseas so that the foreign producers use them, and they produce strictly for not their own consumption but for the American market and the common market as well for the Western industrialized societies. So, it isn't a case, as you might expect, for example, in Japanese automobiles. The reason Japanese automobiles made a penetration into the United States is that they made them for the Japanese market, and they made them for a market that had no access to energy and paid the world price for oil. They made them small. They made them well. They made them good. And when they started to come into the United States at a propitious moment, the Americans liked them and they bought them. That has never been the case here—they didn't produce items of apparel in Hong Kong for the use of the people in Hong Kong and then have American consumers see them in Hong Kong or see them in magazines and order them by the tens of millions of garments. Quite the contrary—apparel factories were set up to provide access to the American market. There are questions that may have been asked about how come they are bought in the store? Merchandisers put the stuff on racks and put them up front. They advertise them widely. They promote the sale of these items. Merchandisers have gone directly to these countries overseas and set up offices and buying offices, and they buy directly—bypassing in many cases the American manufacturer, whether the American manufacturer is a part time importer or not. They promote these goods, and they will continue to do it because the profit margin in so great on imported material as against domestic-made products. And I have testified before subcommittees of the House Ways and Means Committee and subcommittees of this Senate committee, and have had individual conversations, and have pointed out time and time and time again that in a free enterprise system and in an open-market economy and where the Government does not intervene rationally and importantly, in spite of the MFA, that this process will snowball as it has. And next year and the year after, the products that come in from overseas are going to be increased in volume, and concurrently and concomitantly, employment in the industry will go down and down and down, and small businessmen daily are being washed out with the loss of their meager capital and the loss of opportunity to keep their communities alive and vibrant.

Senator MOYNIHAN. If I can interrupt just once more, in your testimony you make the point that with women's apparel, the market penetration is now more than half.

Mr. CHAIKIN. That is right. More than half the value of all the items of ladies and children's apparel sold over the counter comes from overseas. And that is an import penetration which is unbearable.

Senator MOYNIHAN. This would be the first year—1983—that this has happened?

Mr. CHAIKIN. It approached 50 percent in 1983. It is above 50 percent now.

Senator MOYNIHAN. It has now gone past that?

Mr. CHAIKIN. In the first 7 months of this year, the surge of imports of ladies and children's apparel has been horrendous. Now, if I may, I would like to just read the last two pages of the written testimony. We talk about the MFA. We say that there are many other needed areas for revision of MFA under U.S. Government sponsorship. We need to eliminate minimum growth provisions in view of our relatively static domestic apparel market in recent years. And the flexibility provisions should be eliminated. The United States maintains in words the right, as an importing nation, to prevent market disruption, while allowing these provisions to continue in effect. The simple fact is that an importing nation should know its own market and should know how these two provisions fly in the face of preventing market disruption. Such changes in the structure of MFA may give the recent actions of the administration some significance. Until this happens, however, these actions will serve primarily as window dressing. Imports will continue to flood the country, increasing massively from month to month and from year to year, and more and more jobs will be lost in our country. You asked, Senator, about the relationship of the high dollar as it concerns imports and/or exports.

Let me say that in the making of apparel, to begin with, the dollar is linked, for example, to the currency in Taiwan and in Hong Kong, that it makes no difference whether the dollar is weak or strong. No domestic industry that pays as little as almost $6 an hour can compete in labor-intensive products with wage rates of 16 cents an hour in the People's Republic, wage rates of 63 cents an hour in Taiwan, 57 cents an hour in South Korea. It makes no difference whether the dollar is twice as strong or three times as strong. Now, on the other hand, in the making of textiles, the strong dollar is a factor. It is a factor in exports of textiles, which always took place historically in the United States, but so far as the export of apparel is concerned, there was little or nothing ever done in comparison with the strength of the industry or the sum total of the value of the products of the apparel industry. With us—a labor-intensive industry—the key to our lack of competition—competitiveness—which is the new buzzword—is not the technology. We use the state-of-the-art technology. It is not our style sense or fashion creativity. It is all ours and not theirs. It is not anything except the comparative advantage which they have, which is their abject poverty, and the wage rates are a reflection of that. And it is impossible under any circumstances in a free and open market to compete with those products.

Senator DANFORTH. Mr. Chaikin, thank you very much. Mr. Finley?

[Mr. Chaikin's prepared statement follows:]

TESTIMONY OF SOL C. CHAIKIN,
PRESIDENT OF THE INTERNATIONAL LADIES' GARMENT WORKERS' UNION
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE
UNITED STATES SENATE COMMITTEE ON FINANCE

September 18, 1984

Thank you, Mr. Chairman and members of the Committee, for the opportunity to address the question of America's apparel industry in the context of the trade agreements program. My name is Sol C. Chaikin and I am President of the 270,000 member International Ladies' Garment Workers' Union.

The apparel industry is an exemplar of light, labor-intensive manufacturing. Labor-intensive employment represents 42% of American manufacturing employment, roughly some 8 million out of 19 million jobs. Indeed, the nation's single largest industrial employer is the apparel-textile complex. These two industries are closely related, one as a supplier to the other. With 1.8 million jobs today (a drop from roughly 2.5 million in 1974), the textile-apparel complex employs approximately 1 out of every 8 American production workers -- more than basic steel, auto assembly, and chemical refining combined!

Labor-intensive apparel manufacture is, by and large, conducted on a small scale, with the average firm employing fewer than 50 workers. When an apparel factory, employing an average of 50 workers, mainly women, closes, it attracts little media or government attention. Even if 200 such shops around the nation close at or about one time, affecting 10,000 workers -- as is often the case -- the same lack of attention prevails.

The small firms which characterize the apparel industry are generally undercapitalized. While most major corporations are able to borrow funds below the prime rate, the typical firm involved in labor-intensive production must seek funds at factored rates which average far above the prime. Furthermore, fully half of all labor-intensive firms are unable to secure any credit from conventional sources. Capitalization, however, is not the crucial problem of the labor-intensive sector. The major problem is the trade policy pursued by the U.S. government.

At the height of foreign competition in the auto industry, 27% of domestic sales went to imports. In the case of steel, import penetration represents about 22% of the domestic market. I do not mean to minimize the impact of imports on jobs in these industries. I would, however, point out that such import levels were surpassed many years ago in most labor-intensive industries, some of which have been virtually eliminated. Home electronics is one such example and non-leather shoe manufacture is rapidly becoming another. In the case of apparel, in 1983 fully 45% of the domestic market had been taken over by imports. In women's apparel, the penetration rate was more than 50%. In the first seven months of this year, compared with the same period in 1983, apparel imports have increased a further 29 percent.

Some critics of American industry as a whole have contended that growing concentration of ownership has led to management's failure to invest domestically in state-of-the-art technology as well as to a decline in the incentive to compete. They assert that lack of competition has resulted in such management decisions as "planned obsolescence," and, perhaps more important, a general lowering of the quality standards of American products. This is not the case in the apparel industry.

In the apparel industry, no single manufacturer represents as much as 1% of domestic production and there are more than 25,000 firms engaged in cutthroat competition. Competition and ease of entry characterize the industry to such an extent that Adam Smith, were he alive today, would use the apparel industry as a classic textbook example, perhaps the only one remaining, of a truly competitive industry.

Minimal capital requirements provide entrepreneurs here and abroad with extreme ease of entry into labor-intensive industries, resulting in an intensity of competition unprecedented in steel, auto, aerospace and high tech.

The requisite machinery is low tech, of simple design and comparatively inexpensive. In labor-intensive industries, a factory can, quite literally, be set up overnight and no producer can exert any measure of control over its market; instead effective control is vested in a comparative handful of retailing conglomerates, which purchase the overwhelming share of output.

It is the adroitness of the individual worker, not the sophistication of machinery, that determines product quality and productivity. These circumstances characterize such industries worldwide.

In a labor-intensive industry, such as apparel production, wages are the largest single factor affecting production costs. Indeed, in labor-intensive industries, wages are among the lowest in domestic manufacturing. For example, American garment workers earn an hourly average of $5.85 (Union and non-Union), plus fringes. This compares with an average wage in manufacturing of about $9.10 per hour. In auto and steel, of course, the hourly rate of pay is considerably higher than the national average.

Despite an average wage in the lowest 15th percentile of U.S. manufacturing worker earnings, and the resultant competitive pricing practices of domestic manufacturers, importers of labor-intensive products have sought out those parts of the world where wages and living standards are even lower; where poverty effectively becomes the measure of "comparative advantage."

The loss of more than 300,000 jobs in the apparel industry during the last 10 years is directly and primarily attributable to a surge of imports from nations where wages are abysmally low and human rights and the right of workers to organize are virtually non-existent. In the case of women's apparel, more than 70% of imports originate in four nations: Hong Kong, with an applicable wage rate of $1.18 per hour; Taiwan at $0.57; South Korea, $0.63; and the People's Republic of China, where a garment worker earns the U.S. equivalent of $0.16 per hour.

In the developing countries, labor-intensive manufacture is made possible with the use of design, machinery and techniques either copied from the United States or freely given by U.S. importers. Marketing networks are readily provided by the major retailers, who increasingly have become direct importers. The "comparative advantage" provided by the developing nations is the great disparity in living standards between America and the nations which provide the bulk of labor-intensive products.

For this reason, jobless apparel workers in this country will not be reemployed as a result of "soft" loans, technological changes in manufacture or "shaking out" the industry. The only way American garment workers could become more "competitive" with overseas producers is if their wages were pushed below $2.00 an hour.

Parenthetically, it is no coincidence that American sweatshops have resurfaced in the American apparel industry at this time. Apparently, some unscrupulous domestic manufacturers seek to become more "competitive" with imports by hiring undocumented workers to work in garment shops for wages of $1 to $2 an hour. The reopening of this sad chapter in America's industrial history is primarily the result of increasing imports. These workers come to the United States to attain reasonably better living standards. But many of them find that the wages and working conditions of their homelands have been transplanted to the United States via the peculiarities of the immigration laws and the intense competition spawned by massive import penetration in the labor-intensive industries.

Theory tells us that our consumers should benefit because low-wage labor is reflected in retail prices. This is not the case in apparel. Invariably, imported goods retail for the same price as domestically produced items of precisely the same design and style.

How then have imports of labor-intensive goods captured excessive shares of their respective domestic markets? Clearly, imports are advantageous to the importing retail chains which mark up imports to bring the retail price to the same level as domestically produced apparel, providing bloated profit margins. Imported apparel, therefore, takes center stage in displays and advertising, as well as on the clothing racks.

Since 1956, imports of apparel have cost the nation more than 750,000 job opportunities and a consequent loss of many tens of billions of dollars in Federal revenue. To these losses must be added additional losses to state and local governments from forgone payroll taxes and lost property taxes which attend plant shutdowns. All these losses in governmental income must ultimately be borne by the taxpayer, who is also a consumer. In an era of alarming federal deficits, conserving every productive, tax revenue-producing, private-sector job would seem not only prudent but essential.

Sincere concern has been voiced about the effect of reduction of imports from the Less Developed Nations (LDC's) on efforts to eradicate Third World poverty. Our national experience with the Marshall Plan and with our policy toward Japan in the immediate post-World War Two period demonstrated the potential of trade as an instrument in promoting human rights and in raising living standards.

But such benefits have not attended America's policy of permitting what is rapidly becoming unrestricted imports from the Third World. American trade policy toward post-War Japan, for example, was only one component of a comprehensive plan that included the establishment of institutions necessary to the existence of a participative democracy, including the establishment of an independent labor movement. Such measures have been noticeably absent from our economic policies toward the developing nations.

Despite greatly expanded exports to the United States and other developed nations, a special report to the Secretary of the UNCTAD entitled, "Trade and Development in the Eighties," noted that income distribution in the Third World has become less equal and that the poorest 10-20% are actually worse off than they were twenty-five years ago.

In the developing nations, ruled by autocrats, it is easy to keep wages artificially low. In the developing nations, ruled by dictators of the political Left or Right, it is easy to keep the workforce in line. Among the incentives for such repressive measures is the certain knowledge that there are other developing nations eager to host foreign investment where the living standards are even lower. The outcome of this competition among developing nations to provide conditions most attractive to importers, corporate investors and lending institutions has been in stark contrast to our nation's original goal of fostering the emergence of stable, prosperous democracies worldwide.

In addition to keeping living standards artificially low, the emphasis on export-led Third World development in U.S. trade policy diverts development resources from the basic needs of the broad mass of Third World populations. Consider the irony of Communist China's decision to ration cotton cloth to its own people to permit ever higher levels of apparel exports to the United States; or the case of the Brazilian government, which ordered millions of acres of cropland shifted to the production of sugar cane which would then be converted to a gasoline substitute for the privileged few who own cars.

The distortions which occur when poverty becomes the measure of "comparative advantage" are amply demonstrated by the four major apparel-exporting nations. Four Asian regimes, as I have said, control more than 70% of the American market for imported apparel. Three of them, Korea, Hong Kong, and Taiwan, are demonstrably Newly Industrialized

Countries. They are capable, according to conventional wisdom, of sustaining economic growth without excessive dependence on labor-intensive exports. They are producers of steel, auto and high tech. The remaining 30% of the domestic apparel market is spread thinly among 142 other nations. This lopsided relationship serves to undermine much of whatever positive foreign policy benefits should flow from the sharing of our domestic market.

If sharing such extremely large portions of the domestic American market does not help either Third World workers, their American counterparts or the American consumer, who benefits? I reiterate, the evidence points to the retailing conglomerates in this country, to the banks and to the elites of the Third World.

A rational trade policy is crucial if we are to maintain what remains of labor-intensive industries and the jobs they offer to our own underprivileged. A policy based on the expendability of labor-intensive manufacturing, one that views some industries as "sunset" industries that should pass out of the picture and give way to high tech industries, is clearly unacceptable. Such a cavalier attitude ignores the human lives that lie behind employment and income statistics. Workers in labor-intensive industries are overwhelmingly women, with disproportionately large numbers of minorities and recent immigrants. These workers, many of whom are additionally burdened by poor education, and the inability to speak English fluently, have few other job options. With few skills beyond manual dexterity, they find a tough living in labor-intensive industry.

While wages in labor-intensive industries may be low in comparison to steel, auto, aerospace, rubber or refining, they are, nonetheless, higher than in comparable jobs in the service sector, which tend to gravitate around the minimum wage. Are we truly prepared to have our nation become one in which low paid workers will not be able buy back what is produced by capital-intensive and high tech industries? Are we prepared to see an America with ever-lower living standards?

The effects of joblessness among our well-paid workers, as well as the downgrading of higher paid workers, will translate into greatly diminished purchasing power. This should be a matter of deep concern in an economy whose growth and prosperity is fueled by consumer purchases.

Nor can we depend on the panacea of "high tech." While several high-tech industries now post impressive percentage gains in employment, during the remainder of the 1980's they will play a comparatively minor role in new job creation in absolute terms.

Using a reasonably broad definition of high-tech industry, including such sectors as electronics, petrochemicals, drugs, engines and turbines and aircraft production, high-technology accounted for 6.2% of average total wage and salary employment in 1982. By 1995, according to the most recent forecast by the United States Bureau of Labor Statistics, high-tech's share of employment will be only 6.6%. These industries will account for less than 8% of newly created jobs during the next decade. Furthermore, a substantial percentage of jobs created by high-tech firms are really low-skilled jobs providing less renumeration than work in basic industries.

The greatest number of new jobs are expected to be in such occupations as janitors and sextons, nurses aides and orderlies, sales clerks, cashiers, waiters and waitresses. America's demand for fast-food workers will far outstrip demand for computer operators. Only one high-tech occupation -- electrical and electronic technicians -- is projected to be among the top 20 job-producing sectors in coming years, and it ranks nineteenth.

Moreover, the low-paid, unskilled or semi-skilled jobs in high-tech are subject to the same external factors which have undercut employment in basic industries. Atari's decision to relocate 1700 jobs to Asia parallels similar decisions in autos, steel, refining, plastics and apparel. Nor is Atari an isolated case. Tandon Corporation, a sizeable supplier of computer components to IBM, with 1983 sales in excess of $300,000,000, moved all of its production to India and the Far East; Advanced Micro Devices recently announced the erection of a plant to employ 3500 workers in Thailand. Many more high-tech firms, in pursuit of the lowest possible wage levels, have expanded operations in the Third World in lieu of new domestic investment.

While the textile-apparel complex is sometimes referred to as "the most protected segment of the U.S. economy," massive and accelerating levels of import penetration demonstrate that existing measures are wholly inadequate.

Textile and apparel imports in 1984 will almost certainly be 1.4 billion square yards more than in 1983. According to industry figures, this increase in imports is the equivalent of 140,000 American jobs. This is the effect, however, in only one year. Cumulatively, apparel and textile imports have cost our nation more than 750,000 job opportunities.

In a 1980 letter to Senator Thurmond, President Reagan said that he would relate import growth from all sources to domestic market growth. In 1983, the rate of increase in apparel imports reached staggering levels. Apparel imports of all clothing (men, boys, women's, children's, et cetera) were up 14.3% over the prior year and imports of women's and children's apparel alone, the industry in which members of my Union work, were 20.4% higher than in 1982. In 1983, domestic consumption of apparel and textile products grew at a far smaller rate and, over the long run, the domestic market is projected to grow at a rate of no more than one and one half to two percent each year.

The rate of quota growth of textile and apparel imports from the People's Republic of China alone will exceed 10% per annum during the term of our most recently concluded bilateral agreement. This compares with less than one percent average quota growth for Hong Kong, Korea and Taiwan, which export to the United States about 60% of the total of all imports of textiles and apparel.

A rational system of fair trade is the first step in a policy which will conserve the jobs provided by labor-intensive manufacture. Central to such a policy would be negotiated import quotas, which would provide for global allocation of shares of the American market.

In the view of the ILGWU, reserving up to 25% of domestic consumption of labor-intensive apparel products for the output of all low-wage nations is more than an equitable amount. It assures the consumer of "freedom of choice" and permits domestic producers needed "breathing space".

Imports based on global quotas should be licensed by the U.S. Government as permitted in the Trade Act of 1979 as a means of insuring better control and in order to limit fraud, transshipment and counterfeiting. Amendment of Section 204 of the Agricultural Adjustment Act of 1956 to provide increased authority for unilateral controls of textile and apparel imports would also be helpful as a component of a more far-reaching trade policy.

Global allocation would also permit more of America's market to be shared by developing, rather than newly industrialized, nations. Moreover, developing countries would know the size of their U.S. market in advance and be able to plan accordingly. This would also prevent the disruptions which flow from the rapid shift of a developing nation's market share to countries where living standards are even lower.

Such a policy must also be maintained in force for as long as necessary. In a global economy where capital, designs, technology and "know-how" flow instantly around the world, American garment manufacturers will never be able to "compete" with low-wage overseas production. It is illogical, then, to consider limiting apparel trade to a reasonable share of the U.S. market as a temporary measure.

Only when developing nations have achieved a higher standard of living, and poverty is not their main attraction to American business, will the American apparel industry be able "to stand on its feet". Until then, quotas for apparel imports, as a key component of a rational system of fair trade, are the only effective and fair way to head off impending disaster for the apparel industry and its workforce, as well as for the American living standard.

I would like to address several aspects of the United States trade agreements program, specifically regarding the Multi-Fiber Agreement (MFA). The accelerating loss of market shares by domestic textile and apparel manufacturers has occurred despite the Multifiber Arrangement and the 28 bilateral agreements we have negotiated with major suppliers under MFA.

Further, the President's measures of December 16, 1983 cannot be taken as a serious effort to decrease the rate of increase in imports, nor can the new rules of origin accomplish that goal. Basic changes in the import program are needed if the President's earlier commitments to Senator Thurmond and other national political leaders are to be met.

We believe that the MFA requires some important revisions in order to fulfill the purposes for which it and its predecessors were created. And we believe that the U.S. government should take the initiative in effecting these changes. I will concentrate on what I consider to be the most important of these changes, although my proposals are far from being exhaustive.

Perhaps the most important of all would be a recognition -- both by MFA and our government -- of the right of all nations to protect their own working people and industrial structures. This should be an elementary premise. However, the fact is that our government does not do so, at least with respect to the apparel and textile industries. We have allowed imports to grow at astronomical rates from year to year, although every other country continues to seek to protect its own people. Certainly, in an industry such as ours, reciprocity in trade is not the answer. Perhaps "reciprocity" in recognizing the needs of a nation's working people should be the basis of such a program in this industry.

Another critical revision needed in MFA is insuring that all fibers -- natural, synthetic and blends -- be covered, not merely cotton, wool and man-made fibre products. The exclusion of linen, ramie and silk from controls is a loophole which permits exporters and importers to circumvent established quotas.

We should, once and for all, recognize that if the MFA, among other purposes, is supposed to assist underdeveloped countries to develop, some of these countries may eventually become "industrial nations." This is already certainly the case with Taiwan, South Korea and Hong Kong, all of which have long ceased to be "developing nations." As NICs -- newly industrialized countries -- manufacturing autos, steel, ships and high tech, not merely the products of labor-intensive industries, they are no longer in need of MFA protection for their apparel and textile exports.

There are many other needed areas for revision of MFA under U.S. government sponsorship. We need to eliminate minimum growth provisions, in view of our relatively static domestic apparel market in recent years. Flexibility provisions should also be eliminated.

The United States maintains in words the right, as an importing nation, to prevent market disruption, while allowing these provisions to continue in effect. The simple fact is that an importing nation should know its own market and should know how these two provisions fly in the face of preventing market disruption.

Such changes in the structure of MFA may give the recent actions of the Administration some significance. Until this happens, however, these actions will serve primarily as window dressing. Imports will continue to flood the country, increasing massively from month to month and year to year, and more and more jobs will be lost in our country. To suggest, as some key Administration figures have, that we are the most protected industry in the country, is farcical.

It is also no great secret that serious discussions are going on in high government and some business circles to find a way to circumvent effectively the provisions of Item 807. We continue to maintain, as we have for many years, that Item 807 should be repealed to save jobs in our own country.

The effort to revise Item 807 and increase Caribbean and Central American imports, is moving ahead at a rapid rate. If what we have heard is accurate -- and I think it is or I would not be repeating it here -- the plan is to increase imports from the Caribbean and Central American countries by executive action, bypassing Item 807.

American apparel marketers, including some domestic apparel as well as textile manufacturers , would be encourages to move apparel production to countries without quotas, those with unfilled quotas or to raise quotas where they exist. There is even serious talk in some government and marketing circles, including people on some very high levels, to count five items of apparel as one item for quota purposes. Such a program would offer importers lower labor costs and higher profits, as is the case with imports from Asia. The quid-pro-quo is that importers and marketers would lend their support to the Administration's CBI policy. The damage to domestic employment and to the many thousands of small apparel manufacturers would be overwhelming.

The extent to which this seriously considered program will harm employment and manufacture in this country is underlined by the fact that it does not provide taking away some of the Asian quotas, including those of NICs, whose import role I have already mentioned. Over and above the current import-to-consumption ration of more than 50 percent would be added another 30 percent or more of imports from the Caribbean and Central America.

As I conclude my remarks today, I urge this Committee to investigate this possible turn of events as a matter of the highest priority -- before the program becomes a reality, and drives yet another nail in the coffin of domestic American apparel manufacture.

STATEMENT OF MURRAY H. FINLEY, PRESIDENT, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO, WASHINGTON, DC

Mr. FINLEY. Thank you, Mr. Chairman. I am Murray Finley, the president of the Amalgamated Clothing & Textile Workers Union. I hope to have reasonably equal time on this one.

Before I go into my own summary, of my submitted testimony, just in answer to some of the questions. The Bureau of Labor Statistics—figures—for the year 1983—all manufacturing—the average hour earnings of production and nonsupervisory workers was $8.83. It was $5.37 in apparel, and $6.18 in textile, to give you the exact figures for the year 1983. And then, with reference to the dollar, about 20 percent of the increase in apparel is due to the dollar. This is primarily from Europe—the Common Market. The other 80 percent that has come in, Senator, is not due to the dollar. It is due to the surge because of the administration of the multifiber arrangement—to put the record straight. Now, I subscribe to what has been said by the other people who have spoken, but I want to get to the point that you alluded to, Senator Moynihan—in 1962, the long-term cotton textile agreement. And I subscribe that, as you look at the textile apparel industry around the world, it is the major manufacturing industry. It probably employs more people around the world than any other industry and therefore has dramatic impacts everywhere you go—the United States, the Common Market, Central America, the Far East—you name it. The textile apparel becomes a major and important thing because of the numbers of people and the nature of who they are. And I subscribe that because we have had internationally managed trade in this industry, we have had less disruption and less problems than we would have if we had gone under the so-called unregulated trade. Since 1974, we have had the multifiber arrangement, and let us look what has happened outside of the last 4 years—and I agree completely with your analysis of the letter of 1980 and the broken promises—absolutely right. Since 1974, to give you the exact figures, in terms of the cost of living, the Consumer Price Index for apparel rose to the compound annual rate of just 3.2 percent. Since 1974 to 1983, compared to 8.1 percent for the overall Consumer Price Index.

So, the consumer has been the beneficiary. The consumer has not been hurt. The domestic industry has had a stability until the last few years where they were willing—particularly in the textile industry—to invest heavily in plants and equipment so the average increase in productivity has been double the American manufacturing productivity. And I will say this—that we are now doing the same thing in apparel. We are going beyond the state of the art. We are—my union—as you will see it in my testimony and as you have seen it in the Wall Street Journal and the Washington Post—join with the industry, both apparel and textile, in investing our money with some Government help where we are now developing robotization in the manufacturing of apparel.

It is doable and doable, but we are fighting $60 billion of Japanese, $24 million from the Common Market that are spending the same thing. Now, what has happened around the world? In the developing countries, as you can see, they have increased the number of workers by millions in terms of textile and apparel. So, the MFA as a broad internationally managed trade has been a workable program. The problem we now have is that in the last 4 years the administration of the MFA has been totally inadequate. The flexibility requirements, the renegotiation of the bilaterals with Hong Kong, Taiwan, Korea, and China have been almost disgraceful relative to the renegotiation that was done by the Common Market. If we do not readminister the MFA adequately—if you look at the growth in the month of July alone, imports grew at the rate of 62 percent—41 percent for the first 7 months as you heard, 25 percent last year—at a time I point out when the unemployment figures in this industry are almost double the national unemployment figures. For the month of August of this year, unemployment rate in textile is 10.2 percent, up from 9.5 percent in 1983. In apparel, in the month of August, it was 12.5 percent, up from 12.1 percent in 1983, against the overall unemployment of 7.5 percent. So, you have a 62-percent surge in imports at the same time as you have an increase in domestic unemployment which gives you graphically that the domestic is going down as imports are surging. And this is because the administration has administered the MFA totally inadequately. My thesis is that the MFA is a sound principle, that internationally managed trade is the answer if properly done for an industry such as textile apparel which is worldwide, which has tremendous effect. It permits growth—if it is administered properly—orderly growth. It prevents terrible dislocations with all the costs of jobs and all the things that come with high unemployment, but as is now administered, it has gone totally almost as an international agreement, not only without force but almost gives a lease to slug this market.

I submit that if we go back to the principles of the long-term cotton textile, Senator, if we go back to the basic principles of the MFA which provides for orderly growth, if we have a proper administration of this, we can have a continuing healthy industry in the United States with plants and equipment investment growing. We can maintain almost 1.6 million jobs in the United States, and yet we can let the Third World also share in the growth and benefits so those people can live as well.

Senator DANFORTH. Gentlemen, thank you very much.

[Mr. Finley's prepared statement follows:]

TESTIMONY OF MURRAY H. FINLEY, PRESIDENT AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO

Before the Subcommittee on International Trade
Committee on Finance
United States Senate

September 18, 1984

Hearing On THE STATE OF THE U.S. TEXTILE INDUSTRY

SUMMARY

The approach to the problems of international trade, as exists today in the U.S. textile and apparel industry, stands as a model for other industries with similar problems. There are three essential elements involved.

First, trade in textiles and apparel is managed by the Multifiber Arrangement or MFA. Despite serious shortcomings in the implementation and enforcement of the MFA, I believe internationally managed trade is the right way to address serious industry or sectoral trade problems of international consequence. Import restraints provide some assurance of manageable growth in imports and import penetration.

Second, with internationally managed trade moderating import impact, a coordinated program of modernization and technological advancement, such as exists in the men's and boys' tailored clothing industry, is vital for any American industry if it is to remain viable within the world trading system.

Third, the cooperation of management and labor, in achieving both a workable restraint system and a modernization program, is a prerequisite to an economically strong industry.

It is my belief that this three-prong policy approach -- restraints on imports, a modernization program, and management/labor cooperation -- offers the best possibility for satisfactory long-term resolution of the most important trade difficulties facing American firms and their workers today.

Yet, quite clearly, the MFA is not working as it should.

- Steps should be taken to strengthen the MFA while still allowing orderly growth in textile trade.
- Stricter enforcement of established quotas to prevent circumvention is absolutely necessary. The proposed country-of-origin rules, at least initially, will help in that regard.
- Circumvention of quotas through customs fraud -- mislabeling of country-of-origin or of fiber content, and under-invoicing -- must continue to be policed. The U.S. Customs Service "Operation Tripwire" is a step in the right direction.
- Actions against surging imports must be immediate and decisive.

As a model for internationally managed trade, there is a major stake in making the MFA a more effective solution to international trade problems in textiles and apparel.

TESTIMONY OF MURRAY H. FINLEY, PRESIDENT AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO

Before the Subcommittee on International Trade
Committee on Finance
United States Senate

September 18, 1984

Hearing On

THE STATE OF THE U.S. TEXTILE INDUSTRY

I. Introduction

My name is Murray Finley, and I am President of the Amalgamated Clothing and Textile Workers Union, AFL-CIO, which has a membership of approximately 360,000 workers who produce various items of men's and boys' clothing and textile mill products.

The U.S. textile and apparel industry has attached to it many labels. Some call it a "sunset" industry. It is called "labor-intensive" and "import-sensitive." One word rarely associated with the industry is "pioneer." Yet, I would suggest that this industry is appropriately labeled a pioneer.

The approach to the problems of international trade, as exists today in the U.S. textile and apparel industry, stands, in my judgement, as a model for other industries with similar problems. There are three essential elements involved. First, trade in textiles and apparel is managed by the Multifiber Arrangement or MFA. Despite serious shortcomings in the implementation and enforcement of the MFA, I believe internationally managed trade is the right way to address serious industry or sectoral trade problems of international consequence. Import restraints provide some assurance of manageable growth in imports and import penetration. Second, with internationally managed trade moderating import impact, a coordinated program of modernization and technological advancement, such as exists in the men's and boys' tailored clothing industry, is vital for any American industry if it is to remain viable within the world trading system. Third, the cooperation of management and labor, in achieving both a workable restraint system and a modernization program, is a prerequisite to an economically strong industry.

It is my belief that this three-prong policy approach -- restraints on imports, a modernization program, and management/labor cooperation -- offers the best possibility for satisfactory long-term resolution of the most important trade difficulties facing American firms and their workers today.

While many policy-makers, academicians, and business leaders may balk at the word "managed trade", I would note that a large portion of international trade is already "managed." It is managed directly in government-to-government trade, in trade controlled by multinational corporations, and in countertrade arrangements. It is managed indirectly through nationalistic economic policies such as government export and other subsidies, most of which place the United States at a disadvantage.

Still, the textile and apparel industry is a pioneer.

The Multifiber Arrangement is the only officially-sanctioned international system of managed trade in manufactures in the world today. For this reason, experience under the MFA is useful in examining the opportunities and challenges of internationally managed trade.

II. Restraints on Imports: "Controlled Import Growth"

The first element of a satisfactory solution to severe international trade problems is import restraints. The MFA has generally not been viewed by the U.S. Government as an instrument to reduce or maintain existing levels of textile and apparel imports and import penetration. Rather, the MFA's stated aim is to promote the orderly growth of textile trade among countries, albeit on a sound, nondestructive basis.

While the MFA is a model for an internationally managed trade solution to problems of international trade, in practice the MFA is far from perfect.

Almost without exception, overall increases in import penetration, market disruption, and job losses have continued since 1974 when the MFA went into effect. This is because the MFA is not a self-effectuating type of arrangement. Rather the effectiveness of the MFA depends almost entirely on how the United States and other governments implement their rights and obligations under the MFA, particularly under bilateral agreements.

Currently, the 28 U.S. bilateral textile/apparel agreements in force today vary widely in the degree to which they actually inhibit growth in American imports from individual countries, and restrain individual products. In general, only a limited number of highly sensitive products are subject to specific restraints that effectively limit the level of exports to the United States.

Bilateral agreements provide for consultations if imports in uncontrolled product categories begin to threaten or cause disruption in the U.S. market. However, in nearly all cases these consultations take place only after actual import surges occur. Moreover, in 1983, one-third of all textile and apparel imports into the U.S. market came from countries with which the United States does not even have a bilateral agreement. In the first half of 1984, only 56 percent of total textile/apparel imports subject to the MFA were controlled.

Finally, the technical provisions of the MFA and the bilateral agreements grant a tremendous amount of flexibility to exporting countries which create extensive opportunity for them to increase their exports to the United States. Thus, it is hardly surprising that the system of bilateral agreements spawned by the MFA has only constrained trade moderately.

In 1983, total U.S. imports of textiles and apparel grew by 25 percent over the 1982 levels. Through the first seven months of 1984, imports surged a further 44 percent over the corresponding period of 1983. In the month of July 1984, imports were a whopping 62 percent above levels one year earlier. These dramatic import increases, by themselves, speak volumes about the true restrictive impact of the MFA as it relates to the United States. Clearly, much needs to be done to make the MFA a more effective system.

These increases in imports have resulted in substantial employment declines in the industry. Employment in textile mill products fell by 155,000 jobs between 1978 and 1983 (from 899,000 workers to 744,000 workers), while employment in apparel and related products fell by 168,000 jobs over the same period (from 1.33 million workers to 1.16 million workers). The combined job loss was 323,000. Further, the 1984 unemployment rate in this industry is both higher than the national average and even higher than the textile/apparel unemployment rate last year. The August 1984 unemployment rate in textiles was 10.2 percent (up from 9.5 percent in August 1983) and in apparel it was 12.5 percent (up from 12.1 percent in August 1983). The overall civilian jobless rate was 7.5 percent in August 1984 (down from 9.8 percent in August 1983). Thus, the unemployment rate in apparel last month was fully 5 percentage points higher, and the unemployment rate in textiles almost 3 percentage points higher, than the overall unemployment rate.

Until recently, the MFA has normally provided since 1974 a degree of predictability and certainty to the domestic market and to the domestic industry that would otherwise have been absent.

This relative stability has without a doubt encouraged investment and adjustments, thereby strengthening the most competitive features of the industry. Because of rising imports and increased productivity, the number of domestic workers and firms is declining, indeed many more than we believe is warranted. Certain products are now made in this country in sharply reduced quantities. Others have prospered on new product development, improved production process technology, and productivity improvements. While, on the one hand, imports have been allowed to grow adversely affecting domestic production and employment, on the other hand, the MFA has prevented even more serious dislocation for hundreds of thousands of American workers, thousands of firms, and hundreds of local communities. Such extended dislocations would be highly disruptive, causing enormous economic and social costs.

Importantly, the MFA and import restrictions have not been accomplished at the expense of increases in consumer prices. Increases in consumer prices for apparel have been modest relative to price increases of other commodities. Between 1974, when the MFA went into effect, and 1983, the CPI for apparel rose at a compound annual rate of just 3.2 percent, compared to 8.1 percent for the overall CPI.

The very size and scope of the MFA reflect many years of painstaking negotiations on a massive scale, channeling a wide range of conflicting economic interests into a workable although imperfect solution. International textile and apparel trade has grown greatly under the MFA and many developing countries have successfully expanded their industries. Third World countries have certainly prospered under the MFA. There are millions of workers in the developing countries -- and the number is growing -- who have prospered in the production of textiles and apparel for export to the U.S. market. They have been the true beneficiaries of the MFA.

At the same time, the mature economies have experienced a much more stable and predictable competitive environment than they would have otherwise. As a result, the MFA remains in effect because the chief alternatives -- chaotic free trade or unilateral controls -- are unacceptable.

The MFA as a model for internationally managed trade illustrates the advantages of internationally managed trade over the current international trading system, particularly in major areas of ongoing trade disputes.

- Internationally managed trade does not, nor is it designed to, prevent long-term structural adjustment in response to competitive conditions in the world economy. Internationally managed trade should be, and in the case of the MFA has been, structured to assure continued but less disruptive growth in trade, if clearly justified by international competition.

- Internationally managed trade can provide perhaps the only equitable means of allocating the negative structural adjustment that results from increasing international trade more fairly among those countries that are less competitive. Political feasibility dictates that this burden be shared within an internationally negotiated framework, as opposed to the haphazard operation of market forces and unilateral political intervention. Such a process would facilitate unpleasant decisions and moderate international competitive pressure, giving countries sufficient time to adjust and giving individual industries that stand to lose at the hand of free trade a more stable environment in which to plan their best investment strategies.

- Under internationally managed trade, pressure can be brought to bear in a multilateral context on countries to prevent an unrealistic or overly ambitious investment in product areas already suffering from excess worldwide capacity. Frequently, developing industries are located in countries that already severely restrict foreign competition in their own markets, thus distorting local investment decisions. Moreover, certain countries, both developing and developed, target particular industries for development either for noneconomic considerations or to encourage selected goals, such as employment or market share, at the expense of other economic goals, such as wages or profits. Under a system of internationally managed trade, there would be greater transparency of noneconomically based investment which could prevent actions that would unnecessarily worsen a trade problem.

- An internationally managed trade program could potentially inhibit unfair trade practices such as subsidizing and dumping. Since growth in imports and import market share would moderate, the incentives for exporting countries to engage in these unfair economic practices might be reduced. Internationally managed trade would also provide a means to respond to the manipulated pricing practices of industries in centrally planned economies, which the international trade community has not yet addressed adequately.

- Internationally managed trade is the only system whereby alternative social, economic and political goals can be integrated with market processes. Under the MFA, truly poor nations, such as Indonesia, India and Haiti, get an opportunity to export to assist their economic development which they would otherwise never have. Hong Kong, Korea, Taiwan and China would certainly oligopolize the U.S. textile and apparel market under a totally unrestrained system.

III. Efforts to Compete: A Modernization Program

Hand-in-hand with internationally managed trade must go a coordinated program of modernization. Labor is willing to do its part to work constructively to protect our industrial base by making it more competitive. The continuous modernization of American industry is, of course, basic to maintaining America's competitiveness in international trade. U.S. labor is not blind to the need for technological advances to assist in bringing down costs and improving our competitiveness. It would be foolish for labor to think otherwise, since the alternative is rapid attrition of jobs and closed plants as U.S. firms fail to compete with imports.

Our union, with its roots so deep in the history and traditions of the men's tailored clothing industry, is actively pursuing the goal of technological advancement. The men's tailored clothing industry represents an outstanding example of labor and management working together to reduce costs and thereby improve its competitive position. The Tailored Clothing Technology Corporation, or TC^2 as it is commonly known, was created through funding by our Union, individual companies, and the U.S. Government. The union and several participating companies are each investing substantial sums each year in this program. Supported by these funds together with grants from the U.S. Department of

Commerce, the Tailored Clothing Technology Corporation is conducting extensive research into reducing production costs.

In this effort, the Tailored Clothing Technology Corporation is looking at ways of transforming the method of manufacturing garments by looking outside the traditional methods. For instance, it has been determined that only 25 percent of labor requirements in the manufacture of tailored clothing are in the sewing of the garment. Clearly, we must attempt to reduce handling costs. Therefore, the Tailored Clothing Technology Corporation is addressing itself to the reduction in handling requirements and thus hopefully resulting in an appreciable reduction in overall labor costs. There have been real break-throughs here. We have developed robotization techniques for application to the garment industry.

We see further break-throughs ahead in bringing down costs in the tailored clothing industry. Significantly, the Japanese are spending some $60 million for research and development for its apparel industry with the same objectives as ours.

Our Union will have the responsibility with management's cooperation for dealing with the robot-related problems of compensation for workers who may be displaced or placing them in other jobs. In this way and others, we expect to make this industry more competitive and viable, and thus help build a stronger domestic economy.

Other industries faced with severe import problems similarly have a major stake in increasing their competitive stature. An effort to modernize is crucial, but is most likely to achieve optimum results only when practiced in the context of an internationally managed trade environment.

IV. Management/Labor Cooperation

The effort to modernize the men's tailored clothing industry is a good example of what can be accomplished when management and labor cooperate. That kind of cooperation needs to be fostered in all basic industries.

If management believes that corporate goals can be met only by winning out over labor interests, it is a mistake. Much more can be accomplished by management and labor working together.

Labor is not opposed to companies making a profit. Companies that are not profitable cannot expand, or even maintain indefinitely, job opportunities. They cannot invest in new plant and machinery.

For good reasons, labor is opposed to the failure of management in too many industries to use its profits to invest in more productive technology. The case of U.S. Steel buying Marathon Oil instead of reinvesting in the modernization of its facilities is probably the outstanding case in point. Labor is also opposed to management policies that place the entire burden for the adjustment to technological changes solely on the shoulders of workers and their union.

By and large, the textile and apparel industry has a history of management and labor working together to solve the problems posed by imports. We are both striving for maximizing output, we both see the critical importance of being competitive in our own market, and hopefully even in markets abroad. We both understand the vital importance of preserving America's industrial base.

Neither management nor labor can accept policies which prevent necessary adjustments to occur as our technological development proceeds. We do not believe that any sector in the American economy or any group of firms and workers should pay the total costs for the presently inept trade policies of the United States. In short, we understand the importance of improving the competitiveness of American industry.

In all of this, labor acknowledges its responsibility. Management must share its responsibility. And above all government policies must also share considerable responsibility with labor and management.

V. Where Do We Go From Here?

There can be no doubt that a more effective import restraint program is needed in textiles and apparel. Forty-four percent import growth in the first seven months of 1984 cannot be ignored, nor can it be accepted. We want the MFA to work, and it simply is not working as it should.

The effectiveness of the MFA is directly related to the will of those who administer the program. The U.S. Government's will for an effective MFA must be strengthened.

The rules governing country of origin which were proposed by the Administration are, indeed, a step in the right direction. Illegitimate practices to circumvent quota restrictions should not go unnoticed nor unaddressed. Yet, realistically, these country-of-origin rules do not offer a long-term solution to the import problems faced by the domestic textile/apparel industry.

Two results can be expected in the long run from the new country-of-origin rules.

- Those countries which currently perform the initial manufacturing operations will take over the entire production process. For example, currently China may manufacture an item and send it elsewhere where a minor part of production occurs, the finished garment being considered a product not of China, but of the country where only minor manufacture took place. The proposed rules of origin change this. But, in the long term, China will complete all steps of the manufacturing process in China, so long as enough quota exists.

- Alternatively, those countries which currently perform the minor part of production will take over the entire production process. Here, some of the lesser developed countries, such as Mauritius or the Maldive Islands, currently the base for satellite operations, will in the long term be able to manufacture the garments in their entirety.

Either way, the proposed changes in the rules of origin will only have a short-term effect on imports. The international textile and apparel trading system will merely adjust to these new conditions. There is no monopoly on the skills or equipment needed to produce textiles and apparel.

VI. Conclusion

Internationally managed trade, such as the MFA, offers what we believe to be the optimal solution to the international trade conflicts caused by current trends in the world economy and the changing competitive position of the United States. Yet, quite clearly, the MFA is not working as it should.

- Steps should be taken to strengthen the MFA while still allowing orderly growth in textile trade.
- Stricter enforcement of established quotas to prevent circumvention is absolutely necessary. The proposed country-of-origin rules, at least initially, will help in that regard.
- Circumvention of quotas through customs fraud -- mislabeling of country-of-origin or of fiber content, and under-invoicing -- must continue to be policed. The U.S. Customs Service "Operation Tripwire" is a step in the right direction.
- Actions against surging imports must be immediate and decisive.

As a model for internationally managed trade, there is a major stake in making the MFA a more effective solution to international trade problems in textiles and apparel.

Senator DANFORTH. Senator Moynihan.

Senator MOYNIHAN. Yes, Mr. Chairman. Let's just go back at this. I thought it was necessary to deal with the question of exchange rates, because this is a very general problem for American industry, and we read about it in the morning papers. And it has to have affected you as well. I think Murray Finley's statement that it accounts for perhaps 20 percent of the surge and that it comes from Europe, where you have nearly comparable wages, so that exchange rates would have an effect on trade is instructive. But that is not the case for the People's Republic of China and Hong Kong. You can have 100 percent overvaluation of the dollar and 17 cents an hour becomes 34 cents an hour, and you still haven't got yourself up to the $5.37. Let me also ask one general question because our chairman is interested in this subject, and he and you and we talked about these things in good conversations privately. We have here the development of an institution—a new institution—of trade in a new trading situation, and that is the idea of an ordered world trade that permits growth and change but not disruption. And it comes basically as a response to the radical differences in the cost of production as between some countries and others. I mean, today's world simply does not fit Adam Smith's frame of reference—northeastern Europe and, you know, the observation that you can grow grapes in Scotland, and you can grow wool in Portugal, but it is really better to do it the other way around, and comparative advantage works—where you are talking about small distances and fairly homogeneous regions. Now, we are talking about a world economy where the factors of production can move overnight anywhere—excepting one factor of production which cannot move and that is your own working people in your own country. And so, you think, do you not, that we have come upon a sane response to a new economic situation? It is not heretical. It is simply a changed response to a changed condition.

Mr. FINLEY. That is exactly right, sir.

Senator MOYNIHAN. Now, I ask the two of you: What has gone wrong in the last 4 years? We had a pledge in 1980—and that is nothing new—most Presidents have done that. But we have this extraordinary surge. I mean, you are going to be reeling for the rest of the decade.

Mr. FINLEY. Under the renewed MFA, it was permissible in the bilateral agreements for the United States to negotiate cutbacks with the major suppliers. That would mean Hong Kong, Taiwan, Korea, and China. This was permissible. The European Community did negotiate cutbacks. The United States, on the other hand, did not do this. For whatever reason, they chose to permit some growth in their quotas from the four major suppliers in the United States even though, under the international agreement, they could have done otherwise. And may I remind you that in 1979 the U.S. Government at that time got Hong Kong, Taiwan, and Korea to reopen their bilateral agreements and pass up a whole year of growth.

This was during an existing agreement, and here this MFA has been renegotiated in 1982 which specifically provides the authority under that international agreement to negotiate cutbacks. The Common Market did it with Hong Kong, Taiwan, and Korea, and our Government chose to do the reverse. Then you have the call system from the so-called uncontrolled areas that you don't have bilaterals. And it calls for calls at such time as there is a market disruption and increase of large commodities. This administration, for whatever reason, has not used the call system effectively. When they finally did make a call, we were half-dead. They could have done it much sooner. If you will now look at the surge, almost half of it is now coming from the uncontrolled areas where it used to be much less. This is an improper administration. We then had the other thing—the transshipment—where you have going from one area to another to hide the quotas. This is another parcel of administration. You have a trithing, all of which could have been done under the framework of the MFA without violating it, and it has not been done, for whatever the reason. Now, I don't know how to read the minds of the administrators, but the fact is that this is what has happened, and this is in our judgment the cause of 90 percent of the surge that we have faced in the last 3 years.

Mr. CHAIKIN. Senator, may I just add something?

Senator MOYNIHAN. I know that you are concerned about this 807 question which has come up.

Mr. CHAIKIN. Now, very quickly, if I may, Senator, I subscribe to every comment that my colleague, Murray Finley, has made, and I would like to add just one thing. I think you know that as new countries come onstream—as new exporters come onstream—we have a right under the MFA to discuss with them the volume and category, etc. And in order to induce them to enter into a bilateral, we have to be reasonably generous in offering them a quota for their shipments to the United States, and you must be reminded that that quota comes out of the domestic production. We don't have a view such as globalization which we tried to persuade this administration to adopt where, indeed, we would say that of the 120 other countries which have the capacity to make apparel and clothing as they come onstream as American importers shift their base of operations from the Big Four which now controls 70 percent of the exports to the United States they shift to other countries—whether transshipment or whether because of the job or contractor relationship where a garment is started in one country, moved on and partially assembled in a second country, moved on and completed in a third country in order to evade the quotas of the originating country. If we had globalization, we could say to the newcomers—to those who are struggling to get onstream, to the less developed countries—yes, we are happy to have your imports into the United States, but let's cut down a little on Hong Kong. Let's cut down a little on South Korea. Let's cut down on Taiwan. These are newly industrialized countries that have other sources of work for their people, and they have engaged in tough competition in other areas of manufacture. And so, I would add the lack of globalization, the lack of a global view because, if we continue the way we are with the importers moving their base of operations from countries where the quotas are pretty well filled up and which have been longtime suppliers to the United States, and move on to nations whose names are difficult to pronounce, and they are located in areas which are extraordinarily strange parts of the world—you will find that the domestic share of the total sales and total manufacture diminishes daily—day by day by day. So, there are a few things that ought to be done. I am concerned about one other thing. I am concerned about the use of item 807, and I am concerned about the thinking of some people in the administration that because of foreign policy success is absolutely necessary and because we have recently discovered our neighbors that are within 2 to 3 hours of jet travel from the United States, namely the Caribbean. There has been discussion in very high places in this administration of setting aside the prohibition of textile, apparel and clothing coming in outside of quota from the Caribbean. There is talk, for example, and serious proposals that by Executive order it might be possible to count every fifth piece coming in and not count the four which preceded it. There is a lot of discussion about opening up the Caribbean for the setting up of apparel factories. They are quick. They are easy. It takes very little capital. It is a one-on-one situation—a sewing machine and one worker. And I am terribly afraid that the projections of some people in the administration that the Caribbean can be opened up—not alone to American entrepreneurs supplying American capital for the factories in Haiti and Santa Domingo and Jamaica, etc.—but opened up for third country entrepreneurs. There are people from Hong Kong and Taiwan who are becoming interested in setting up garment factories in the Caribbean because they believe that there will be a very open opportunity to export those garments that are made there into the United States on a more favored basis. And that is another concern.

Senator MOYNIHAN. Thank you very much. Mr. Chairman, I wonder if we could just record that Mr. Herman Strobin, the director of research of the ILGWU is here and Mr. Art Gundersheim with the ACTWU is also present.

Senator DANFORTH. Senator Mitchell.

Senator MITCHELL. Thank you, Mr. Chairman. Mr. Chaikin and Mr. Finley, you were present during the previous panel in which I asked of Mr. Huff, Mr. Barr, and Mr. Shockley, who represent another segment of the same industry, about the level of imports in the last 3 years and their relationship to the growth of the market. You recall, I assume, that almost exactly 4 years ago during the last Presidential campaign, then-candidate Ronald Reagan made a commitment to the industry in the form of a letter that was widely circulated in the industry that pledged to deal with the problem by relating the level of imports to the level of growth of the domestic market. Now, I want to ask, did you understand that to mean—and it was widely circulated in the industry—that if the domestic market grew by 10 percent, imports would grow by 10 percent?

And if the domestic market grew by 5 percent, then imports would grow by 5 percent, and so on. Is that your understanding?

Mr. FINLEY. Yes, it was, Senator. I don't know if you were here when I mentioned this. In August 1984, the unemployment rate in textile went up to 10.2 percent, which was as against 9.5 in 1983—August. In apparel, it was 12.5 percent, up from 12.1 percent of August 1983. At the same time in the month of July—I don't have the August figures—imports grew in the United States by 62 percent. So, here you have got an increase in unemployment domestically when you have got a surge in imports. It seems clear as can be what has happened to domestic production. Our plants now, the average hours have gone down in the last few months. The inventory pipeline is filled. Retailing has dropped in terms of the last few months. We are concerned, and our manufacturers are all concerned about 1985. They see the soft orders—or soft reorders—in the year of 1985 both in the spring and fall. So, we see a domestic leveling and dropping off in our industries at the same time as you now see a surge in imports. You put those together and it becomes clear—you have got a flat or downward domestic industry in terms of domestic production, and you have got for the first 7 months a 44-percent increase in imports, 62 percent in the month of July. If you look at the increase in unemployment domestically and the surge, I think it answers the question that you are asking.

Senator MITCHELL. Right. The figures that the previous panel supplied were that in 1982 the domestic market declined, that there was in fact no growth, but that imports rose by 16 percent. Do you dispute those figures, or do you agree with them?

Mr. FINLEY. No. Not at all.

Senator MITCHELL. You agree with them?

Mr. FINLEY. In 1982, we had unemployment in our industry that was almost 17 percent. We had a disaster. As I went around the country talking to my members, I am telling you it was a tragedy in the year 1982.

Senator MITCHELL. Now, for 1983, the previous panel indicated that the growth in the domestic market was about 1.5 percent but that imports rose by 25 percent over the previous year. Do you dispute those figures or do you agree with them?

Mr. FINLEY. Not at all.

Senator MITCHELL. Not at all? You don't dispute them?

Mr. CHAIKIN. Not at all. It was 24.3 percent to be exact, from all the available sources and estimates. By and large, it is absolutely so whether it be textile, textile apparel, or textile apparel and clothing—right across the board. The average increase in demand domestically has rarely exceeded 1.5 percent. If you use 1.5 percent as an average, on rare occasions it may have approached 2 percent. Imports have been 10 to 15 times as large as——

Senator CHAFEE. We do have other panels, but go ahead, Mr. Finley.

Mr. FINLEY. In both the textile and in the apparel, there was a growth in 1983. There was a recovery. Now, you come to the relationship to the imports. The recovery was probably closer to 3 or 4 percent on our side. I looked at average hours. They went up from 37.5 to 40.5—34.7 to 36.2, from 1982 to 1983; 1983 was an improvement, but not 16 percent. It was much less than the imports, sir.

Senator MITCHELL. I have one concluding question. Each member of the previous panel agreed that a commitment had been made and that the commitment had not been kept. Do you agree?

Mr. FINLEY. Totally, Senator.

Mr. CHAIKIN. Absolutely.

Senator MITCHELL. All right.

Mr. CHAIKIN. May I point one thing out to you, Senator, so that you will understand. When Murray Finley speaks, he represents not alone workers who are in the clothing industry, but he represents workers who are in the textile industry.

Mr. FINLEY. And shoe unfortunately.

Mr. **Chaikin**. And shoe and leather. But there is a large difference between apparel and textiles. Now, there was perhaps a recovery in the textile industry because they furnish—half of their customers are apparel manufacturers—the other half are for homefurnishings—the other half of the customers are automobile manufacturers, etc., etc. In 1983 when there was a recovery of textiles, there was also a recovery in home building, you will recall. There was also the beginnings of "domestic recovery of the auto industry," and so that is absolutely so. But in 1983 our industry was still in recession, and in 1984 our industry continues to be in worse straits—simply and clearly and precisely related to import growth.

Senator **Mitchell**. Thank you very much, gentlemen. Mr. Chairman, thank you very much.

Senator **Danforth**. Thank you very much. The next witnesses are Thomas Hays, vice chairman of the May Department Stores in St. Louis, Sim Gluckson, chairman of the American Association of Exporters & Importers of the Textile and Apparel Group, David Seiniger, president of the Marisa Christina, and Malcolm L. Sherman, president of the Zayre Corp. Mr. Hays.

STATEMENT OF THOMAS A. HAYS, VICE CHAIRMAN, THE MAY DEPARTMENT STORES CO., ST. LOUIS, MO

Mr. **Hays**. Thank you, Mr. Chairman and members of the subcommittee. My name is Thomas Hays and I am vice chairman of the May Department Stores. I am here today with Mr. Malcolm Sherman, the president of Zayre Stores, on behalf of the Retail Industry Trade Action Coalition to discuss the U.S. textile and apparel trade policy. The subcommittee has copies of our formal statement, which I ask to be included in the official record of these hearings. RITAC is a coalition of major independent retailers and retail trade associations organized to counter trade policies which we believe threaten the health of our industry and of the U.S. economy generally through higher prices at home and reduced opportunities for U.S. exports abroad. Particularly important to retailers are restrictions on imports of textiles and apparel. Duties on textiles and apparel currently are the highest of any major product sector. High tariffs and import quotas on textiles and apparel impose substantial costs on the U.S. economy and U.S. interest abroad. They increase consumer costs as much as $23.4 billion in 1984, according to one study. They cost jobs in unprotected industries as a result of foreign retaliation against U.S. export policies, relieve the domestic textile and apparel industries from pressure to modernize and reassert their competitiveness in world markets, and undermine U.S. international economic and political interests particularly in developing countries which depend on textile and apparel exports as a source of needed foreign exchange. I have four points I wish to make this morning. First, the multifiber arrangement will expire in 1986. We believe that any extension of the MFA should reassert its original purpose to serve as a temporary transition to assist importing countries in adjusting to global competition in textiles and apparel without undue market disruption. Second, RITAC believes that textile policy should return to the mainstream of U.S. trade policy formulation. For 20 years, textile trade has been made by people and via processes outside of the normal trade policymaking process. Textile decisions often involve billions of dollars worth of trade and should be considered with other trade decisions of vital national interests through established interagency policy review channels. Indeed, the recent, highly controversial textile country of origin regulations issued by the Customs Service offer an excellent example of how textile and apparel import decisions are taken without sufficient interagency and public review. Third, the entire textile trade policymaking process must be more open. Sound policymaking must reflect the interests not only of the textile industry but also of retailers, importers, consumers, workers, and other affected groups. And fourth, we believe that any future import relief for textile and apparel industries should be expressly linked to an industry labor effort to improve productivity and to effective worker adjustment and retraining assistance.

Government can facilitate this process by encouraging capital investment in more efficient plants and equipment. Employees who lose jobs as a result of industry restructuring should be eligible for retraining and job counseling services which will permit them to move into other jobs. Before turning to Mr. Sherman, I want to reemphasize our concern that fundamental changes are needed in the U.S. textile and apparel trade policy to bring into balance the interests of all sectors of the American economy. We look forward to working with you and this subcommittee in future hearings to explore these changes and how these changes may be best brought about.

[Mr. Hays' prepared statement follows:]

Statement
by the
Retail Industry Trade Action Coalition (RITAC)

The Retail Industry Trade Action Coalition (RITAC) is pleased to present testimony on U.S. textile and apparel trade policy.

RITAC believes that U.S. textile and apparel trade policy is seriously flawed. This statement will address the need for general reform of the textile trade policy process, and examine certain fundamental flaws in the Multifiber Arrangement (MFA), procedures for imposing restraints on non-quota products ("calls"), and the recently promulgated "country of origin" interim regulations for textile and apparel products. It will highlight the critical effects of U.S. textile policy decisions on consumer costs and choice, on jobs for American workers, and on U.S. international economic and political interests. Finally, it will suggest options for textile trade policy reform designed to make such policies more responsive to the needs of both American industry and the American consumer including:

- Issues involving renewal of the Multifiber Arrangement which expires in 1986;
- Returning textile policy-making to the mainstream of the U.S. trade policy structure;
- Making the textile trade policy process more open and accessible; and
- Linking import relief to improved industry productivity and effective worker adjustment.

THE RETAIL INDUSTRY

RITAC is a coalition of major independent retailers and retail trade associations organized in June 1984 to oppose restrictive trade policies which threaten the health of our industry and of the U.S. economy generally, through higher prices at home and reduced opportunities for U.S. exports abroad. In 1983, the retail industry posted sales of over $1 trillion (approximately one-third of overall U.S. GNP) with a workforce of 16.7 million representing over 2 million separate establishments.

The success of the retail industry and the standard of living of its customers depend on its ability to provide the widest possible selection of quality merchandise at reasonable prices. Its customers, especially low and middle income customers, have insisted on fashion-right, high-quality, competitively-priced products from all over the world. Domestic import restrictions, however, have made it increasingly difficult for retailers to meet these basic consumer needs.

THE COSTS OF RESTRICTIVE TRADE POLICIES IN TEXTILES AND APPAREL

The textile and apparel industries are the most protected sector of American industry. Eighty-five percent of textile and apparel imports come from 23 countries with which the U.S. has bilateral agreements which govern such imports. The duties on textiles and apparel are the highest in the U.S. Tariff Schedules for any major product sector, with a weighted average duty on apparel of 25.9 percent compared to 5.2 percent for all dutiable products. Textile and apparel duties have been substantially exempted from tariff reductions in successive multilateral trade negotiations under the GATT. These products have also been exempted from the Generalized Systems of Preferences (GSP) and the Carribean Basin Initiative (CBI).

Moreover, the textile policy-making process itself further frustrates these efforts. Because it is outside of the mainstream of U.S. trade policy, textile policy-making is not subject to automatic review by senior government officials in such sectors as agriculture which may be significantly affected by the results of such decisions. Nor is adequate notice and opportunity for comment provided to retailers, importers, consumers, and other interested groups.

Barriers to textile and apparel imports impose substantial costs on American society. These include increased consumer prices, lost jobs in unprotected industries, reduced competitiveness in the textile and apparel industries themselves, and negative effects on U.S. international economic and political interests.

The Hidden Cost to Consumers. Restrictions on textile and apparel imports operate as a "hidden tax" on consumers, raising prices and reducing the available quantity of imported goods. For example, a recent update of a study completed in 1980 by Michael C. Munger and Kathleen A. Rehbein, economists at Washington University's Center for the Study of American

Business, estimated the cost to U.S consumers of import protection for textiles and apparel to be $23.4 billion in 1984. That is more than $1,000 for a family of four. Similarly, a recent study by William R. Cline estimated that proposals to roll back footwear imports by 20 percent would increase prices to consumers by at least 13 percent and add $2 billion annually to what American's pay for shoes.

Lost Jobs In Unprotected Industries. Existing tariff and quota barriers on textiles and apparel are double-edged. While the domestic textile and apparel manufacturers lost about 400,000 jobs from 1978 to 1983, the retail industry created almost one million. Too often, import restrictions "save" jobs in one sector of the economy only at the expense of jobs in other sectors. While restrictions may guarantee certain prices or profits or market share to a favored industry, they penalize consumers and other unprotected industries. One of every eight workers manufactures for export and one of every three agricultural acres is planted for export. Exporters of agricultural commodities as well as other products and services, are vulnerable to foreign trade retaliation in response to U.S. trade decisions. Lost jobs and business opportunities in these sectors must be recognized as a cost of U.S. textile and apparel trade policies.

Effects on the Textile and Apparel Industries. Import levels cannot be directly equated with the health of the domestic industry. Labor Department statistics show that domestic textile and apparel employment is increasing despite rising import levels. Moreover, recent articles in the New York Times (7/30/84); the Wall Street Journal (9/6/84) and Fortune (7/9/84) report strong earnings by the apparel industry since 1983, and steady growth in net income for textile companies. Apparently, consumers are buying both more imported goods and more U.S. goods.

How much of this industry prosperity is the result of existing U.S. tariff and quota policies and how much is attributable to independent market forces (i.e. the end of a recession) is not certain. While these statistics argue persuasively against industry pleas for further import protection, they mask the underlying negative effect of U.S. textile and apparel trade policy on the protected industries themselves. Experience has shown that import restrictions rarely solve the problems of a domestic industry in the way that they were originally intended. Such restrictions can become a shelter from world competition and an excuse to avoid dealing with the problems of productivity, quality, innovation, and price. Rather than growing stronger, the industry becomes dependent on government protection and falls further behind its worldwide competition.

Similarly, workers "protected" by import restrictions rarely gain long or even medium-term benefits. Apparel and textile wages are typically well below the average for American manufacturing workers. Import tariffs and quotas help to encourage these workers to remain in inefficient, low wage industries, rather than to shift to higher paying jobs in growth sectors of the economy. A 1981 study for the U.S. Labor Department*/ found that textile and apparel workers who were permanently laid off received higher incomes in the five years following their layoff than they would have by remaining in their old jobs, even after accounting for a period of unemployment.

Effects on U.S. International Economic and Political Interests. Beyond the effects of foreign trade retaliation on jobs in U.S. export industries, U.S. textile and apparel trade policies have important international, economic and political implications. For developing countries, open markets in the industrial world are critical to economic growth and stability. The effect of import restrictions on LDCs is crucial for several reasons. Reduced earnings from exports by the developing countries (who depend on textiles and apparel for 30 percent of their export earnings in manufactured products) will mean a reduced ability to import from the United States. The developing countries, which now account for over one-third of total U.S. exports and have been the fastest growing markets for U.S. products, have been severely affected by the recent world recession. Reducing textile and apparel imports from those nations exacerbates their troubled economic condition. The current massive debt obligations of the LDCs threaten not only their own progress and the export fortunes of U.S. businesses but also the foundations of U.S. banks and the international monetary and financial system. Allowing foreign exchange earning through trade is the best way to deal with the problem of LDC debts.

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*/ Arlene Holen, Christopher Jehn, and Robert P. Trost, "Earnings Losses of Workers Displaced by Plant Closings," Public Research Institute, December, 1981.

SPECIFIC ISSUES OF IMPORTANCE TO RETAILERS

The Multifiber Arrangement (MFA). Trade in textiles and apparel is more restricted than trade in any other goods. Bilateral agreements, negotiated under the rules of the Multifiber Arrangement, place quantitative restrictions on trade and permit discrimination among trading partners. The MFA provides a framework for regulation whereby individual countries negotiate bilateral agreements on how imports are to be restricted. The resulting quota levels are derived according to category. In cases where a category is not covered by quotas, the bilateral agreements provide mechanisms for establishing such levels during the term of the agreement.

The initial purpose of the MFA was to restrict imports from low-wage countries temporarily so they would not disrupt industries in the developed high-wage countries. The Arrangement had its beginnings in the late 1950s, when Japan "voluntarily" agreed to limit its exports of cotton products to the U.S. In 1973, the MFA was signed as an official multilateral "exception" to GATT trading rules. The agreement was extended in late 1981, to be in effect until 1986.

Arbitrary categories and rules-of-origin requirements under the MFA provide a basis for complex and highly restrictive bilateral agreements affecting textile and apparel trade. Exceptions to the basic MFA framework incorporated in the Protocols of Extension add further to the complexity of these requirements. RITAC believes that the debate on renewal of the MFA should address these issues, while seeking to reassert the Arrangement's original purpose to serve as a transition towards a more open international trading system for textiles and apparel.

Textile and Apparel Calls. A "call" is a governmental action to restrict imports of a category of textiles or apparel not already under quota restraints. The Committee for the Implementation of Textile Agreements (CITA) makes a call by issuing a market statement intended to spell out the factors which, in its judgment, have created a situation where domestic apparel producers are being injured. "Market disruption" is to be determined on the basis of a finding of serious damage to domestic producers or of an actual threat of such damage. In making this determination, paragraph 1 of Annex A of the MFA requires the United States and other importing countries to consider "turnover, market share, profits, export performance, employment, volume of disruptive and other imports, production, utilization of capacity, productivity and investments." Moreover, paragraph 1 specifically provides that "(n)o one or several of these factors can necessarily give decisive guidance."

"Market disruption" is a rigorous standard which places a heavy burden of proof on a country seeking to establish restrictions on textile and apparel trade. Frequently, however, CITA decisions are based solely on increased import levels, without serious investigation of actual "disruption" of U.S. markets.

On December 16, 1983, the President authorized a new "trigger" mechanism for initiating calls. Under the new procedure, the government will presume that "market disruption" has occurred when the following two-step test has been met: 1) when global imports of a specific category of goods have grown by 30% or when the ratio of imports to domestic production is greater than 20%; and then 2) when imports from a specific supplier country equal 1% of total U.S. production in that category. We believe that this procedure is inconsistent with MFA standards.

Calls pose special problems for the retail industry. There is frequently no advance notice or opportunity to review call decisions, or to have any effective input into the decision-making process. Moreover, such decisions frequently lack a reasonably developed case against specific apparel imports as required under the standards and criteria of Annex A of the MFA and by Paragraph 8 of the Protocol of Extension. What information is made available with formal "market statements" is generally inadequate and is normally released after the call has been made.

Country of Origin Rules for Textiles and Apparel. Recently, the Customs Service proposed interim regulations governing the importation of textiles and apparel products. Under the guise of combating import fraud, these new regulations make substantial changes in long-standing Customs policy which will affect hundreds of millions of dollars of textile and apparel trade. Moreover, the regulations were issued on an interim basis without adequate notice or opportunity for public comment.

RITAC supports efforts to identify and curtail fraud in textile trade. Where actual fraud is occurring, it should be stopped. However, RITAC believes that these regulations interrupt accepted, legitimate trade patterns that have nothing to do with fraud. On August 29, RITAC filed a lawsuit in the Court of International Trade to enjoin enforcement of these regulations, which already are disrupting the textile trade. RITAC's legal and policy objections to the regulations are fully described in its complaint filed with the Court.

AGENDA FOR POLICY CHANGE

Based on the problems described above, RITAC believes that significant changes need to be made in U.S. textile and apparel trade policy in four broad areas.

First, the international framework for textile controls, the Multifiber Arrangement, is up for renewal in 1986. Any extension of the MFA should reflect its original purpose: to serve as a temporary transition mechanism, a short-term measure to allow industries in importing countries to adjust to global competition without undue market disruption.

Although RITAC is still shaping its formal position on MFA renewal issues, we believe that serious consideration should be given to restructuring some elements of its current operation. For example, products not produced domestically by the United States might be taken out of the arrangement. There is no direct domestic benefit to workers or consumers by such import restrictions, and they appear inconsistent with the spirit of the MFA. Similarly, exceptions to the basic MFA framework which have been written into recent protocols of extension should be carefully reviewed. Such exceptions have contributed significantly to current world-wide textile policy difficulties.

Second, the domestic textile policy-making process is in urgent need of revision. For over 20 years, textile trade policy has been made by people and via processes outside of the trade policy-making process. Indeed, the recently-published textile country-of-origin regulations offer an excellent example of how textile and apparel import decisions, taken by the Committee on Implementation of Textile Agreements (CITA), are given insufficient interagency review. This decision was made without a clear understanding of its implications for U.S. exports, particularly agricultural exports, and U.S. trade policy generally. Textile policy-making often takes place in a framework that is not subject to the same checks and balances as other trade policy.

RITAC believes that textile policy should be returned to the mainstream of U.S. trade policy formulation. Textile decisions often involve billions of dollars worth of trade and should be considered alongside other trade decisions of vital national interest through established interagency policy review channels. All interested agencies should be given an adequate opportunity to participate in the decision-making process.

Textile policy decisions should be made according to set standards, with public participation, and subject to review by the Trade Policy Review Group (TPRG). If an individual decision is of particular consequence, review by the Trade Policy Committee (TPC) or the Cabinet Council on Commerce and Trade (CCCT) may also be appropriate. CITA should not be the final arbiter of U.S. textile policy decisions.

Third, the entire textile trade policy-making process must be made more open. Sound policy-making must reflect the interests not only of the textile industry, but also of retailers, importers, consumers, workers, and other affected groups. Too often, decisions are made by fiat, in the dark, without adequate findings or justification. Retailers and other interested parties often do not receive the timely notice to which they are entitled before import restraint actions are taken. Such notice is not only essential to permit comment on proposed restraints but also to allow orderly adjustment of commercial arrangements. A more open decision-making process will help to ensure that textile and apparel policy decisions reflect the interests of all segments of the economy.

Fourth, and finally, any future import relief for the textile and apparel industries should be expressly linked to an industry/labor commitment to improved productivity and, where appropriate, to effective worker adjustment and retraining assistance. Temporary relief should not become a permanent crutch for manufacturers or workers who are unwilling to take the necessary steps to remain competitive in world markets.

Government can assist this process by encouraging capital investment in more efficient plants and equipment. Labor-management cooperation in seeking to improve productivity through more efficient procedures and better working conditions should also be encouraged. Most important, employees who lose jobs as a result of industry restructuring should be eligible for effective retraining and job counseling services which will permit them to move into other sectors of the economy.

Only by linking import relief with improved productivity and effective worker adjustment assistance can the government expect to resolve the current impasse.

RITAC appreciates the opportunity to present its views to the Committee. We look forward to working with the Committee in future hearings on this very important subject.

RITAC

RETAIL INDUSTRY TRADE ACTION COALITION

July 2, 1984

Mr. Walter C. Lenahan
Deputy Assistant Secretary
for Textiles and Apparel
United States Department of Commerce
Room 3001
14th Street Between Constitution Avenue
and E Streets, N.W.
Washington, D.C. 20230

Dear Mr. Lenahan:

On behalf of The Retail Industry Trade Action Coalition (RITAC) which consists of chief executive officers from 20 retail firms and six national trade retail associations, I am writing to object to the restrictions imposed on man-made fiber luggage. The members of RITAC are listed on the enclosed sheet. We believe the call is illegal and unjustified. The restrictions should be lifted as soon as possible.

Background

On January 13, 1984, notice was published in the Federal Register indicating that, pursuant to Article 3 of the MFA, the United States had requested consultation with the Republic of Korea to discuss trade in Category 670 (only T.S.U.S.A. Nos. 706.4144 and 706.4152), covering man-made fiber luggage. The notice also indicated that a "temporary restraint" of 18,435,270 pounds had been placed upon imports of Categroy 670 (only T.S.U.S.A. Nos 706.4144 and 706.4152) merchandise. 49 Fed. Reg. 1786 (January 13, 1984).

The temporary restraint limit has nearly been reached, and in the near future no more imports of man-made fiber luggage from Korea will be allowed to enter the U.S. market. This action has resulted in serious damage to the business of RITAC member companies. In our view, the merchandise does not fall within the purview of the MFA, and therefore the restraint is not permitted. Moreover, even if the merchandise does fall within the purview of the MFA, it is clear that the requirements of the MFA have been ignored.

Chairman
WILLIAM A. ANDRES
Chairman of the Board
Dayton Hudson Corporation

Vice Chairman
DONALD V. SEIBERT
Retired Chairman of the Board
J.C. Penney Company, Inc.

Treasurer
SUMNER L. FELDBERG
Chairman of the Board
Zayre Corporation

Managing Director
J. ROBERT BROUSE

International Square, Suite [illegible] 1825 Eye Street, N.W. Washington, D.C. 20006
[illegible]
[illegible]

Procedural Defects

The United States' failure to provide advance notice of the call and an opportunity to comment violated our members' statutory and Constitutional due process rights and caused them serious harm. As you know, the question of the applicability of Constitutional and statutory procedural safeguards to the U.S. textile import program is now pending before the Court of Appeals for the Federal Circuit in the American Association of Exporters and Importers - Textile and Apparel Group (AAEI - TAG) lawsuit. Regardless of the outcome of that appeal there can be no doubt as to the harm these procedural shortcomings have caused.

That harm includes additional costs and delays in entering merchandise subject to the call, the actual embargo of merchandise already shipped and paid for, and the curtailment or delay of imports already ordered and paid for through irrevocable letters of credit. Our members' economic losses were compounded by the lack of notice because, until the day of the January 13, 1984, Federal Register notice, these companies continued to engage in normal business transactions with no reason to know that the United States government was poised to undo the benefit of their transactions. Not only would a suitable notice period have given our members an opportunity to comment on the merits of the prospective call, possibly causing the United States to have refrained from its issuance, but equally important, such a period would have allowed importers to avoid incurring additional economic loss through the continuing conclusion of new contracts involving Category 670 (only T.S.U.S.A. Nos. 706.4144 and 706.4152) merchandise. We can see no justification for denying American importers and retailers the minimal procedural protection of a suitable notice period.

Lack of Compliance with MFA Requirements

RITAC submits that much of the luggage which has been made the subject of this call is not even chiefly composed of textile materials either by weight or value, but are composed chiefly of vinyl or other products. This means, therefore, that the United States has no authority to restrain the importation of such luggage, since these products are not textile products at all, as they are defined by the MFA.

RITAC believes these products are not covered by the MFA. However, even if these products were covered, the January 13, 1984, call was issued in blatant disregard of applicable substantive requirements. The January 1984 market statement mechanistically enumerates import and production data and the import to production ratios based upon these data, without fully explaining how these data were obtained. In any case, the accuracy of the data relied upon is problematical, since the import data prior to June 1982 are estimated using a questionable methodology based on assumptions which are not valid (i.e., constant product mix from year to year.) Moreover, imports are measured in pounds, not units, which raises a question as to whether the non-textile weight of luggage (which can be substantial) has been excluded or included in the import estimates. In addition, the statement makes unsupported statements concerning price underselling and market disruption, and thus, falls far short of meeting the standards for taking restrictive import actions set forth in the MFA.

Paragraph 1 of Annex A of the MFA requires that "the determination of a situation of 'market disruption' . . . shall be based on the existence of serious damage to domestic producers or actual threat thereof." (Emphasis added.) In determining whether "serious damage" has been caused by increased imports, the MFA requires the United States (and other importing countries) to consider turnover, market share, profits, export performance, employment, volume of disruptive and other imports, production, utilization of capacity, productivity and investments. Moreover, Paragraph 1 specifically provides that "(n)o one or several of these factors can necessarily give decisive guidance."

The requirements for finding market disruption or threat thereof do not stop there. For instance, in contrast with the rough price measures reflected in the January 1984 Market Statement, prices compared must be for "similar goods of comparable quality" and they must be compared "with the prices which normally prevail for such products sold in the ordinary course of trade and under open market conditions by other exporting countries in the importing country." In the case of Category 607 merchandise, it is not at all clear that the products compared are, in fact, similar. Was the domestically produced item chiefly made of nylon or was it made of some other, non-textile, material such as plastic or leather?

The MFA also requires the United States to take account of the interests of the exporting country, including the exporting country's state of development, the importance of the textile sector to the economy, the employment situation, overall balance of trade in textiles, trade balances with the importing country concerned and overall balance of payments. The January 13, 1984, call ignored this requirement, as well as the others previously mentioned, in clear contravention of the committment made by the United States in the 1981 Protocol extending the MFA to abide by the "discipline" of the MFA's market disruption standard.

It is time, RITAC submits, for the United States to cease harming American importers, retailers, and consumers by taking restrictive actions in blatant disregard of the applicable standards established in the MFA, and made applicable by bilateral agreement and fundamental principles of U.S. administrative law. As long ago as December 28, 1981, the United States admitted in a United States Department of Commerce solicitation to procure data from national consumer apparel panels,[1] that there is a lack of sufficient and timely apparel production, sales, consumption and price data . . . necessary to identify market disruption resulting from imports and to determine and monitor current trends in apparel markets." Since the date of that solicitation, there has been no discernible improvement in the United States government's informational capabilities, as witnessed by the January 13, 1984, call on Category 670 (only T.S.U.S.A. Nos. 706.4144 and 706.4152) from the Republic of Korea.

---

[1] No. SA-RSB-82-0011.

Absence of Market Disruption

Current published information concerning the condition of the domestic industry and information that our members have been able to obtain demonstrate the absence of market disruption or threat thereof to the domestic industry. The pertinent information demonstrating the absence of actual or threatened market disruption is set forth below.

The threshold requirement for demonstrating actual or threatened market disruption is that the domestic industry be seriously damaged or threatened with serious damage. Although no data are available on a category-specific basis, the information that is available demonstrates that the domestic producers of textiles used in the production of Category 670 (only T.S.U.S.A. Nos. 706.4144 and 706.4152) merchandise are part of an industry that is currently enjoying remarkably healthy business conditions. Thus, in contrast with the production and other information relied upon by the United States in finding market disruption, the June 1984 Federal Reserve Board Report on Capacity Utilization and Output of U.S. manufacturing sectors shows that output index for textile manufacturers had grown by 13.7 percentage points between the first quarter of 1983 and the first quarter of 1984. Moreover, in May 1984 U.S. producers of textile products were operating at 88 percent of capacity utilization, up from 85.4 percent in the same month a year ago. Recently issued Bureau of Labor Statistics data show, also, that employment of textile mill workers was up 4 percent from May 1983 to May 1984. These statistics create a presumption that the domestic textile industry is not experiencing market disruption or threat thereof.

Moreover, there is no proof contained in the January 1984 Market Statement that U.S. manufacturers of luggage products have, in fact been injured as a result of import growth. Quite the contrary may be true. A February 1983 article which appeared in Industrial Fabrics Product Review indicates, for instance, that U.S. consumption of Nylon fabrics in the production of soft-side luggage increased from 6.1 million pounds in 1980 to 8.9 million pounds in 1982. A similar increase has occured in the consumption of Cordura nylon and in cotton/polyester blend fabrics. In 1980 U.S. consumption of these fabrics was 1.48 and 1.85 million pounds respectively, in 1982 U.S. consumption had increased to 3.02 and 2.32 million pounds. Moreover, the January 1984 issue of Industrial Fabrics Product Review reports that total U.S. production of soft side luggage in 1983 increased 5 percent and U.S. production is expected to increase by 10 percent in 1984.

In addition to these astounding figures, RITAC submits that a substantial percentage of luggage imports are brought into the country by U.S. manufacturers, themselves.

In short, it is clear that, in violation of the applicable MFA requirements, the January 13, 1984, call was not based on any demonstration of market disruption or threat thereof to either U.S. textile or luggage producers. For the reasons set forth above, we urge that the January 13, 1984, call be withdrawn before additional harm is caused to our members as a consequence of the procedurally and substantively defective action.

Sincerely,

William A. Andres

William A. Andres
Chairman

WAA:RWL:edr
Enclosure

RITAC

RETAIL INDUSTRY TRADE ACTION COALITION

Retail Companies

Associated Dry Goods Corporation
Associated Merchandising Corporation
Balliet's, Inc.
BATUS Retail Group
Carter Hawley Hale Stores, Inc.
Dayton Hudson Corporation
Edison Brothers Stores, Inc.
Federated Department Stores, Inc.
J. C. Penney Company, Inc.
K mart Corporation, Inc.
Proffitt's Inc.
R. H. Macy & Co., Inc.
Sears, Roebuck and Co.
Seiber Bros., Inc.
Spiegal, Inc.
Tandy Corporation
The May Department Stores Company, Inc.
Walgreens
Zale Corporation
Zayre Corp.

Associations

American Retail Federation
Association of General Merchandise Chains, Inc.
Direct Selling Association
National Association of Chain Drug Stores
National Mass Retailing Institute
National Retail Merchants Association

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J. ROBERT BROUSE

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FOR IMMEDIATE RELEASE

RITAC

CONTACT:
Nancy Siebert
(202) 833-3013

RETAIL INDUSTRY TRADE ACTION COALITION

RETAIL COALITION TO FIGHT FOR FREER TRADE

Washington, D.C. -- June 27 -- A coalition of large and small retail merchants from across the country announced today that it will press for freer international trade to ensure the best possible choice and value for consumers.

The Retail Industry Trade Action Coalition (RITAC) now consists of the chief executive officers from 20 retail firms and eight national retail associations. Its Executive Committee Chairman is William A. Andres, Chairman of the Board of the Minneapolis-based Dayton Hudson Corporation. Former J.C. Penney Chairman Donald V. Seibert of New York is the Vice Chairman.

"Retailers are alarmed at the mounting pressure to restrict imports", said Andres in his opening remarks, "because consumers end up paying billions of dollars more than is necessary for clothing, shoes and other items they want from abroad."

RITAC's chief concerns, as expressed by Andres and other press conference participants, are maintaining consumer choice and value in the merchandise retailers stock and improving the competitiveness of American industry to end reliance on import restrictions. RITAC hopes to educate Congress and other key publics that freer trade does not cost American jobs.

"We are concerned about jobs and about the adjustment American workers and industry must make to new developments and increased competition", Andres said, "but quotas on imports or other restrictions force us to trade jobs in certain industries for jobs that could have been created elsewhere. And new restrictions on imports invariably rebound to cut jobs here as other countries retaliate.

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Andres and a series of other speakers outlined the problems retailers face in attempting to maintain the wide selection of goods and the low prices that consumers demand in the face of the highly restricted international trade in textiles and apparel. They cited horror stories of merchandise embargoes by the United States government that cut off shipments and force higher prices for their customers.

Andres termed the textile and apparel import quota program "a triumph of politics over economic common sense," and estimated the cost to consumers at over $4 billion in 1984.

"We are going to take a direct political approach to boost freer trade," the Coalition Chairman pledged. "We've written the President, met with the Secretary of Commerce, and we're expanding our contacts at the White House and on Capitol Hill."

The Coalition has been active since January 1984 mounting a series of legal and political challenges to protectionist measures. RITAC intends to challenge the validity of administration "calls" that have halted the shipment of apparel from abroad, and has joined in an appeal of a ruling of the Court of International Trade.

"In the longer term," Andres revealed, "the Coalition will work to raise consumer voices in opposition to the billions of dollars in hidden taxes they pay due to import restrictions." Broadening the Coalition to include more retail companies is another prime objective.

"Retailers are not ready to stop competing," Andres continued. "Every day in every retail store in America we take a consumer poll of likes and dislikes. We want to continue giving them the fashion-right, high quality, competitively priced products they want from all over the world."

The U.S. retail industry employs 16.7 million people in about two million establishments. Retail sales of over $1 trillion in 1983 accounted for almost one-third of the GNP.

# # #

RITAC

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National Mass Retailing Institute
National Retail Merchants Association
National Shoe Retailers Association
Volume Footwear Retailers of America, Inc.

RITAC

RETAIL INDUSTRY TRADE ACTION COALITION

September 10, 1984

Mr. Walter C. Lenahan
Deputy Assistant Secretary
for Textiles and Apparel
Room 3001
United States Department of Commerce
Washington, D.C. 20230

Dear Mr. Lenahan:

On behalf of The Retail Industry Trade Action Coalition (RITAC), which consists of the chief executive officers of 20 retail firms and six national trade retail associations, I am writing to object to the restrictions recently imposed on imports of man-made fiber mens and boys shirts from Indonesia. The members of RITAC are listed on the enclosed sheet. We believe the call is illegal and unjustified; the restrictions should be lifted immediately.

Background

On June 21, 1984, notice was published in the Federal Register indicating that, pursuant to Article 3 of the MFA and Section 204 of the Agricultural Act of 1956, as amended, the United States had requested consultation with Indonesia to discuss trade in Category 640, covering man-made fiber mens and boys shirts. The notice also indicated that a temporary restraint of 49,801 dozen during the May 29 through August 26, 1984 period had been placed upon imports of Category 640 merchandise. 49 Fed. Reg. 25498. This action has caused substantial economic loss to RITAC member companies.

As we explain more fully below, the United States' action concerning trade in Category 640 merchandise from Indonesia was taken in total disregard of the requirements of the MFA to show that imports of man-made fiber mens and boys shirts from Indonesia are causing market disruption.

Procedural Defects

The failure of the U.S. government to have provided advance notice of the call and a reasonable opportunity to comment was in violation of the due process rights of our member companies and has caused them serious harm. As you know, the

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question of the applicability of Constitutional and statutory procedural safeguards to the U.S. textile import program is now pending before the Court of Appeals for the Federal Circuit in the American Association of Exporters and Importers - Textile and Apparel Group (AAEI-TAG) lawsuit. Regardless of the outcome of that appeal there can be no doubt as to the harm these procedural shortcomings have caused.

That harm includes additional costs and delays in entering merchandise subject to the call, the actual embargo of merchandise already shipped and paid for, and the curtailment or delay of imports already ordered and paid for through irrevocable letters of credit. Our members' losses were compounded by the lack of advance notice, since they continued to engage in normal business transactions up to the very day of the June 21, 1984 notice. Not only would a suitable notice period have given our members an opportunity to comment on the merits of the prospective call, possibly persuading the United States not to issue the call, but, equally important, such a period would have permitted our members to avoid incurring additional economic loss through the continuing conclusion of new contracts involving Category 640 merchandise from Indonesia. We can see no justification for denying American importers and retailers the minimal procedural protection of a suitable notice period.

Lack of Compliance with MFA Requirements

Paragraph 1 of Annex A of the MFA requires that "the determination of a situation of 'market disruption' . . . shall be based on the existence of serious damage to domestic producers or actual threat thereof." (Emphasis added.) In determining whether "serious damage" has been caused by increased imports, the MFA requires the United States (and other importing countries) to consider turnover, market share, profits, export performance, employment, volume of disruptive and other imports, production, utilization of capacity, productivity and investments. Moreover, Paragraph 1 specifically provides that "(n)o one or several of these factors can necessarily give decisive guidance."

The requirements for finding market disruption or threat thereof do not stop there. For instance, in contrast with the rough price measures reflected in the May 1984 Market Statement, prices compared must be for "similar goods of comparable quality" and they must be compared "with the prices which normally prevail for such products sold in the ordinary course of trade and under open market conditions by other exporting countries in the importing country."

In addition to Paragraph 1 of Annex A, Article 6 of Appendix A of the MFA acknowledges that based on ". . . the need for special treatment for exports of textile products from developing countries, the criterion of past performance shall not be applied in the establishment of quotas for their exports of products from those textile sectors in respect of which they are new entrants in the markets concerned and a higher growth rate shall be accorded to such exports . . . ." (Emphasis added.) The fact that in 1981 U.S. imports of Category 640 merchandise from Indonesia only amounted to one thousand dozen is indicative of Indonesia's "new entrance" of Category 640 merchandise into the marketplace. Furthermore, when U.S. imports of Category 640 merchandise from Indonesia are compared to the total quantity of U.S. imports of Category 640 merchandise for the year ending

March 1984 (152 to 11,443 thousand dozen), it is very difficult to justify the "serious disruption" that the U.S. domestic market is experiencing from U.S. imports of Category 640 merchandise produced by Indonesia.

The June 21, 1984, call was issued in blatant disregard of these requirements. The mechanistic enumeration of 1983 import data, 1982 production data, and import to production ratios based thereon, coupled with conclusory and unsupported statements concerning price underselling and market disruption, falls far short of meeting the standards for taking restrictive import actions set forth in the MFA. Moreover, while the May 1984 Market Statement claims that there has been a "sharp and substantial increase of imports" of Category 640 merchandise, in fact in 1983 total imports of this merchandise decreased, and for the twelve-month period ending March 1984 the level of imports still remains below the 1982 level. As such, the United States' action was in clear contravention of the commitment made by the United States in the 1981 Protocol extending the MFA to abide by the "discipline" of the MFA's market disruption standard.

The MFA also requires the United States to take account of the interests of the exporting country, including the exporting country's state of development, the importance of the textile sector to the economy, the employment situation, overall balance of trade in textiles, trade balances with the importing country concerned and overall balance of payments. In the case of Indonesia this additional information is relevant. According to the Federal Financial Institutions Examination Council, Indonesia owes U.S. banks more than $3 billion dollars. Indonesia depends upon its textile trade to repay this outstanding debt. Moreover, based on Department of Commerce statistics, the United States had a 1983 trade surplus of over $1 billion with Indonesia.

The United States improperly ignored this information, as well. Had it examined this information, it would certainly have concluded that restraining trade in Category 640 merchandise will affect Indonesia's future ability to purchase U.S. exports.

It is time, RITAC submits, for the United States to cease harming American importers, retailers, exporters and consumers by taking restrictive actions in blatant disregard of the applicable standards established in the MFA and made applicable by bilateral agreement and fundamental principles of U.S. administrative law. As long ago as December 28, 1981, the United States admitted in a U.S. Department of Commerce solicitation to procure data from national consumer apparel panels,[1] that "there is a lack of sufficient and timely apparel production, sales, consumption and price data . . . necessary to identify market disruption resulting from imports and to determine and monitor current trends in apparel markets." Since the date of that solicitation, there has been no discernible improvement in the United States' informational capabilities, as witnessed by the June 21, 1984 call on Category 640 from Indonesia.

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1. No. SA-RSB-82-0011.

Absence of Market Disruption

Current published information concerning the condition of the domestic industry and information that our members have been able to obtain demonstrate the absence of market disruption or threat thereof to the domestic industry. The pertinent information demonstrating the absence of actual or threatened market disruption is set forth below.

The threshold requirement for demonstrating actual or threatened market disruption is that the domestic industry be seriously damaged or threatened with serious damage. Although no data are available on a category-specific basis, the information that is available demonstrates that the domestic producers of Category 640 merchandise are part of an industry that is currently enjoying remarkably healthy business conditions. Thus, in contrast with the production and other information relied upon by the United States in finding market disruption, the June 16, 1984 Federal Reserve Board Report on Capacity Utilization and Output of U.S. manufacturing sectors shows that the output index for textile manufacturers had grown by almost 4 percentage points between the second quarter of 1983 and the first quarter of 1984. Moreover, in May 1984 U.S. producers of textile products were operating at 85.7 percent of capacity utlization. Recently issued Bureau of Labor Statistics data show, also, that employment of textile mill workers was up almost 2 percent from July 1983 to July 1984. During the same time period employment for apparel workers increased over 4 percent. This translates into a gain of over 60,000 jobs in this sector of the U.S. economy. These statistics create a presumption that the domestic textile/apparel industry is not experiencing market disruption or threat thereof.

Recent articles in the trade press confirm the favorable picture that official U.S. government statistics paint of the industry's current condition. For example, a May 7, 1984 Wall Street Journal article reports that U.S. textile manufacturers experienced a 68 percent net increase in profits on continuing operations between the first quarter of 1983 and the first quarter of 1984. Moreover, according to an article published in the April 19, 1984 Daily News Record, U.S. man-made fiber producers experienced an 8 percent increase in capacity utilization from 78.8 percent capacity untilization in May 1983 to 85.4 percent capacity ultilization in March 1984. Similarly, on May 10, 1984, the Daily News Record reported that shipments of man-made fiber by U.S. producers were 8 percent higher in the first quarter of 1984 compared with the first quarter of 1983.

Finally, data independently collected by RITAC and the National Retail Merchants Association ("NRMA") suggest that U.S. apparel manufacturers are, in fact, responsible for a large percentage of the shipments of Category 640 merchandise from Indonesia. RITAC and NRMA interviewed the senior merchants of 18 general merchandise retail firms with annual sales in excess of $80 billion dollars. The merchants were questioned extensively about their firms' orders of Category 640 merchandise during the twelve-month period ending March 31, 1984. Only 20 percent of the respondents had actually placed any orders for this type of merchandise in Indonesia. Moreover, the total number of orders placed during the twelve-month period ending March 31, 1984, by responding firms accounts for only 25 percent of the total shipments of Category 640 merchandise from Indonesia for the period, and these same firms accounted for only only 12 percent of the shipments made in the first three months of 1984. While the 18 firms interviewed do not account for all direct orders of Category 640 merchandise from Indonesia placed by retailers, we believe they account for the majority of orders directly placed by retail firms for the period. This is because the firms in our sample include most, if not all, of the major U.S. chain and department stores, and because most smaller retailers do not directly import, but instead limit their purchases to domestic sources. Thus, we believe that the bulk of the remaining trade in Category 640 merchandise from Indonesia — certainly well over 50 percent — must be the result of orders placed by U.S. manufacturers. A finding of market disruption or threat thereof cannot, we submit, be predicated even in part on such U.S. manufacturers' imports.

In short, it is clear that, in violation of the MFA requirements the June 21, 1984 call was not based on any demonstration of market disruption or threat thereof. For the reasons set forth above, we urge that the June 21, 1984 call be withdrawn before additional harm is caused to our members as a consequence of the procedurally and substantively defective action.

Sincerely,

William A. Andres
Chairman

edr
Enclosure
cc: Honorable Malcolm Baldrige
Ambassador William E. Brock
Honorable Raymond J. Donovan
Ambassador Richard H. Imus
Honorable Donald T. Regan
Honorable George P. Shultz

Mr. William E. Barreda
Mr. Irvine I. Kramer
Mr. Paul Pilkauskas

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National Retail Merchants Association
National Shoe Retailers Association
Volume Footwear Retailers of America, Inc.

UNITED STATES COURT OF INTERNATIONAL TRADE

RETAIL INDUSTRY TRADE ACTION COALITION; ASSOCIATED DRY GOODS CORPORATION; ASSOCIATED MERCHANDISING CORPORATION; BALLIET'S, INC.; BATUS RETAIL GROUP; DAYTON HUDSON CORPORATION; EDISON BROTHERS STORES, INC.; FEDERATED DEPARTMENT STORES, INC.; K MART CORPORATION, INC.; R.H. MACY & CO., INC.; THE MAY DEPARTMENT STORES COMPANY, INC.; J.C. PENNEY COMPANY, INC.; PROFFITT'S, INC.; SELBER BROS., INC.; SPIEGEL, INC.; ZALE CORPORATION; ZAYRE CORPORATION, and AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS - TEXTILE AND APPAREL GROUP; ASSOCIATION OF GENERAL MERCHANDISE CHAINS, INC.; NATIONAL RETAIL MERCHANTS ASSOCIATION,

Plaintiffs,

v.

Court No.
84-8-01204

UNITED STATES CUSTOMS SERVICE; UNITED STATES DEPARTMENT OF THE TREASURY; COMMITTEE FOR THE IMPLEMENTATION OF TEXTILE AGREEMENTS; UNITED STATES DEPARTMENT OF COMMERCE; UNITED STATES DEPARTMENT OF LABOR; UNITED STATES DEPARTMENT OF STATE; OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE; THE UNITED STATES; and

WILLIAM VON RAAB, Commissioner of Customs; JOHN M. WALKER, JR., Assistant Secretary of the Treasury; DONALD T. REGAN, Secretary of the Treasury; WALTER C. LENAHAN, Chairman, Committee for the Implementation of Textile Agreements; MALCOLM T. BALDRIGE, Secretary of Commerce; RAYMOND J. DONOVAN, Secretary of Labor; GEORGE P. SHULTZ, Secretary of State; and WILLIAM E. BROCK, United States Trade Representative,

Defendants.

COMPLAINT FOR DECLARATORY AND INJUNCTIVE RELIEF

Plaintiffs, by their attorneys, WEIL, GOTSHAL & MANGES, for their complaint, allege:

NATURE OF THE ACTION

1. This is a civil action for declaratory and injunctive relief. It is brought by: the Retail Industry Trade Action Coalition ("RITAC") on behalf of its members, the members of RITAC noted below in their individual capacity (hereinafter, the "Retail Firms"),[1] and the trade association members of RITAC noted below, on behalf of their respective members.[2] The Retail Firms purchase, and import into the United States, textiles and textile products which, on August 3, 1984 become subject to new regulations issued by the United States Customs Service (the "Customs Service") under the direction of the Committee for the Implementation of Textile Agreements ("CITA") (49 Fed. Reg. 31,248) (the "regulations").

The regulations were promulgated without prior notice of proposed rulemaking and without affording any opportunity for public comment. Moreover, the regulations have substantially changed the standards and procedures for determining the applicability of quantitative restrictions and the proper source of visas or export licenses utilized to effectuate such restrictions, as well as country of origin marking requirements for imported textiles and textile products. The regulations have also imposed new documentation, inspection and enforcement provisions to effectuate the new standards.

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[1] Associated Dry Goods Corporation; Associated Merchandising Corporation; Balliet's, Inc.; BATUS Retail Group; Dayton Hudson Corporation; Edison Brothers Stores, Inc.; Federated Department Stores, Inc.; K mart Corporation, Inc.; R.H. Macy & Co., Inc.; The May Department Stores Company, Inc.; J.C. Penney Company, Inc.; Proffitt's, Inc.; Selber Bros. Inc.; Spiegel, Inc.; Zale Corporation: and Zayre Corporation.

[2] American Association of Exporters and Importers - Textile and Apparel Groups ("TAG"); Association of General Merchandise Chains, Inc. ("AGMC"); and National Retail Merchants Association ("NRMA").

Plaintiffs maintain that issuance of the regulations by the Customs Service violated required administrative procedures and was in excess of constitutional and statutory authority. Moreover, the regulations themselves are arbitrary, capricious, an abuse of discretion, and otherwise contrary to law. On these grounds, the Court should declare the regulations unlawful and set them aside and enjoin Defendants from enforcing them.

JURISDICTION

2. This Court has jurisdiction over this action pursuant to 28 U.S.C. § 1581(i)(3)-(4) in that it is commenced against the United States, its agencies, and its officers, and arises out of Section 204 of the Agriculture Act of 1956, as amended (7 U.S.C. § 1854), a law of the United States providing for embargoes or other quantitative restrictions on the importation of merchandise for reasons

other than the protection of the public health or safety, and the administration and enforcement of such embargoes or other quantitative restrictions.

3. Plaintiffs seek declaratory and injunctive relief, which this Court is empowered to grant under 28 U.S.C. §§ 1585, 1651, and 2643(c)(1). There exists between Plaintiffs and Defendants an actual and justiciable controversy as to which Plaintiffs have no adequate remedy at law and require a declaration of their rights by this Court.

4. Plaintiffs have standing to bring this civil action under 28 U.S.C. § 2631(i), in that Plaintiffs are persons adversely affected and aggrieved by agency action within the meaning of 5 U.S.C. § 702, in the manner described below.

THE PARTIES

5. Plaintiff Retail Industry Trade Action Coalition ("RITAC") is an unincorporated association with its principal office in the District of Columbia. RITAC is composed of various retail trade associations as well as firms within the retail industry. The members of those associations and these retail firms import and sell, among other articles, textiles and textile products. RITAC represents its members' interests in public policy matters involving international trade.

6. Plaintiff Associated Dry Goods Corporation is a corporation organized and existing under the laws of the State of Virginia. Associated Dry Goods Corporation is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

7. Plaintiff Associated Merchandising Corporation is a corporation organized and existing under the laws of the State of New York. Associated Merchandising Corporation serves as a buying office for firms within the retail industry and, in this capacity, acts as importer of record for certain merchandise, including textiles and textile products.

8. Plaintiff Balliet's, Inc., is a corporation organized and existing under the laws of the State of Oklahoma. Balliet's, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

9. Plaintiff BATUS Retail Group is a corporation organized and existing under the laws of the State of Delaware. BATUS Retail Group is principally engaged in the business of selling merchandise at retail, including textiles

and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

10. Plaintiff Dayton Hudson Corporation is a corporation organized and existing under the laws of the State of Minnesota. Dayton Hudson Corporation is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

11. Plaintiff Edison Brothers Stores, Inc. is a corporation organized and existing under the laws of the State of Delaware. Edison Brothers Stores, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

12. Plaintiff Federated Department Stores, Inc. is a corporation organized and existing under the laws of the State of Delaware. Federated Department Stores, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

13. Plaintiff K mart Corporation, Inc. is a corporation organized and existing under the laws of the State of Michigan. K mart Corporation, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

14. Plaintiff R. H. Macy & Company, Inc. is a corporation organized and existing under the laws of the State of New York. R. H. Macy & Company, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

15. Plaintiff The May Department Stores Company, Inc. is a corporation organized and existing under the laws of the State of New York. The May Department Stores Company, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

16. Plaintiff J.C. Penney Company, Inc. is a corporation organized and existing under the laws of the

State of Delaware. J.C. Penney Company, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

17. Plaintiff Proffitt's, Inc. is a corporation organized and existing under the laws of the State of Tennessee. Proffitt's, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

18. Plaintiff Selber Bros., Inc. is a corporation organized and existing under the laws of the State of Louisiana. Selber Bros., Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

19. Plaintiff Spiegel, Inc. is a corporation organized and existing under the laws of the State of Delaware. Spiegel, Inc. is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the

merchandise that it sells, including textiles and textile products.

20. Plaintiff Zale Corporation is a corporation organized and existing under the laws of the State of Texas. Zale Corporation is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

21. Plaintiff Zayre Corporation is a corporation organized and existing under the laws of the State of Delaware. Zayre Corporation is principally engaged in the business of selling merchandise at retail, including textiles and textile products and acts as importer of record for certain of the merchandise that it sells, including textiles and textile products.

22. Plaintiff American Association of Exporters and Importers - Textile and Apparel Group ("TAG") is an association of retailers and importers engaged in the importation of textile and apparel products and the sale of such articles. The members of TAG import and sell textiles and textile products.

23. Plaintiff Association of General Merchandise Chains, Inc. is a retail trade association whose member firms

import and sell, among other articles, textiles and textile products.

24. Plaintiff National Retail Merchants Association is a retail trade association whose members operate retail stores which import and sell, among other articles, textiles and textile products.

25. Defendant Customs Service is an agency of Defendant the United States, as defined in 5 U.S.C. § 701, organized within Defendant United States Department of the Treasury. Defendant William Von Raab is the Commissioner of Customs, and is being sued herein in his official capacity. The Customs Service is authorized and required by law to promulgate and enforce entry requirements for all imported articles and to enforce any applicable quantitative restrictions and marking requirements on the importation of articles, including textiles and textile products (with respect to which Customs receives and follows policy guidance and directives from CITA). The Customs Service, through the action of Defendant Von Raab and otherwise, promulgated the regulations complained of herein.

26. Defendant United States Department of the Treasury (the "Treasury Department") is an agency of Defendant the United States, as defined in 5 U.S.C. § 701. Defendant Donald T. Regan is Secretary of the Treasury, respon-

sible for the actions of the Treasury Department and Customs Service complained of herein. Defendant John M. Walker, Jr., is Assistant Secretary of the Treasury Department for Operations and Enforcement. The Treasury Department is authorized and required by law to supervise and direct the activities of the Customs Service and, through its membership in CITA, to provide policy guidance to the Customs Service regarding the implementation of quantitative restrictions on the importation of textiles and textile products. The Treasury Department, through the actions of Defendants Regan and Walker and otherwise, who are being sued herein in their official capacity, directed and approved the actions by the Customs Service complained of herein.

27. Defendant Committee for the Implementation of Textile Agreements ("CITA") is an agency of Defendant the United States, as defined in 5 U.S.C. § 701. Defendant Walter C. Lenahan is its chairman and is being sued herein in his official capacity. CITA is authorized and required by law to supervise the implementation of all textile trade agreements. In this capacity, CITA issued policy guidance to Defendant Customs Service and directed and approved the actions complained of herein.

28. Defendant United States Department of Commerce (the "Commerce Department") is an agency of Defendant the

United States, as defined in 5 U.S.C. § 701. Defendant Malcolm T. Baldrige is the Secretary of Commerce, responsible for all actions of that agency, and is being sued herein in his official capacity. The Commerce Department is authorized and required by law, through the membership and chairmanship of its representative, Defendant Walter C. Lenahan, in CITA, to provide policy guidance to the Customs Service regarding the implementation of quantitative restrictions on the importation of textiles and textile products. The Commerce Department, through the actions of Defendants Baldrige and Lenahan and otherwise, directed and approved the actions by the Customs Service complained of herein.

29. Defendant United States Department of Labor (the "Labor Department") is an agency of Defendant the United States, as defined in 5 U.S.C. § 701. Defendant Raymond J. Donovan is the Secretary of Labor, responsible for all actions of that agency, and is being sued herein in his official capacity. The Labor Department is authorized and required by law, through its membership in CITA, to provide policy guidance to the Customs Service regarding the implementation of quantitative restrictions on the importation of textiles and textile products. The Labor Department, through the actions of Defendant Donovan and otherwise, directed and

approved the actions by the Customs Service complained of herein.

30. Defendant United States Department of State (the "State Department") is an agency of Defendant the United States, as defined in 5 U.S.C. § 701. Defendant George P. Shultz is the Secretary of State, responsible for all actions of that agency, and is being sued herein in his official capacity. The State Department is authorized and required by law, through its membership in CITA, to provide policy guidance to the Customs Service regarding the implementation of quantitative restrictions on the importation of textiles and textile products. The State Department, through the actions of Defendant Shultz and otherwise, directed and approved the actions by the Customs Service complained of herein.

31. Defendant Office of the United States Trade Representative ("USTR") is an agency of Defendant the United States, as defined in 5 U.S.C. § 701. Defendant William E. Brock is the United States Trade Representative, and is being sued herein in his official capacity. USTR is authorized and required by law, through its membership in CITA, to provide policy guidance to the Customs Service regarding the implementation of quantitative restrictions on the importation of textiles and textile products. USTR, through the actions of

Defendant Brock and otherwise, directed and approved the actions by the Customs Service complained of herein.

THE REGULATIONS

32. On August 3, 1984, the Customs Service, through the actions of Defendant William Von Raab and with the approval of Defendant Treasury Department, through the actions of Defendant John M. Walker, Jr., caused to be published in the Federal Register a document giving notice of issuance and promulgation of certain "Customs Regulations Amendments Relating to Textiles and Textile Products." 49 Fed. Reg. 31,248 (1984).

33. The regulations were issued pursuant to presidential directive (Executive Order 12,475, 49 Fed. Reg. 19,955 (1984)), with policy guidance from CITA pursuant to such directive. The regulations were issued under color of authority of Section 204 of the Agricultural Act of 1956, as amended, (7 U.S.C. § 1854) ("Section 204"), ostensibly for the purpose of preventing "circumvention or frustration of visa or export license requirements contained in multilateral and bilateral agreements to which the U.S. is a party in order to facilitate the efficient and equitable administration of the U.S. Textile Import Program."

34. The regulations as written became effective immediately upon publication and applied to all textiles and textile products exported from their "country of origin" as defined therein on or after September 7, 1984, even if produced and exported pursuant to binding contracts entered into on or before August 3, 1984, the date of publication of the regulations in the Federal Register. In a subsequent press release dated August 23, 1984, Customs announced that the regulations would not apply to textile and textile products shipped from their country of origin prior to October 31, 1984 but only if contracted for before August 3, 1984.

35. The regulations, and the de facto amendment thereto by the August 23 press release, were not issued in proposed form. No notice of proposed rulemaking, affording interested persons an opportunity to participate in the rulemaking by the submission of data, views, or arguments, was published in the Federal Register prior to their issuance, as required by Sections 553(b)-(c) of the Administrative Procedure Act (5 U.S.C. § 553(b)-(c)). The regulations were claimed to be exempt from these requirements on the grounds that they are "within the foreign affairs

function of the U.S. and the foreign affairs exemption of 5 U.S.C. § 553(a)(1)."

36. The regulations amend the procedures and practices under which the Customs Service, under the direction of CITA, requires the presentation of visas or export licenses for importations of textiles and textile products which are subject to quantitative limitations under certain bilateral textile trade agreements to which the United States is a party or pursuant to unilaterally imposed restraints. With a few exceptions, these bilateral agreements were entered into by the United States and its trading partners under the auspices of the Multifiber Agreement ("MFA"), a multilateral agreement entered into in 1973 to establish a framework for regulating and facilitating trade in textiles and textile products among participating countries. The MFA was renewed in 1977 and 1981, and remains in effect.

37. The regulations disregard applicable precedents of this Court and depart from long-established Customs Service principles and practices, in the following respects among others:

(a) The regulations disregard country of exportation principles under textile trade agreements and, instead, provide that "country of origin" rules are to be applied exclusively for purposes of applying quantitative restrictions on textile products.

(b) In the case of textiles or textile products which consist, in whole or in part, of materials which originated, or were processed, in another foreign country, the regulations impose a double requirement in determining their "country of origin": i.e., the textile or textile product must have undergone in the latter country not only a "substantial transformation" into a new and different article of commerce with a name, character, or use distinct from the article or material from which it was so transformed but, in addition, a manufacturing or processing operation which is deemed substantial in comparison to the manufacturing and/or processing operations performed on the product in other countries.

(c) The regulations purport to establish criteria for determining whether, as a result of a manufacturing or processing operation, a new and different article has been produced; i.e., whether a change in commercial designation or identity; change in essential character; and change in commercial use has occurred. The regulations contemplate that all of these criteria will be applied and considered in each instance and, as contrasted with longstanding customs principles and precedent, that the satisfaction of one of them will not, in and of itself, be sufficient to establish that a "substantial transformation" has occurred.

(d) The regulations state categorically that textiles and textile products will not be deemed to have been substantially transformed by virtue of having merely undergone any of the following: (a) combining or packaging operations; (b) the joining together by sewing, looping, linking, or other means of attaching otherwise completed component parts; (c) cutting or otherwise separating of articles from materials which have previously been marked with cutting lines or which contain lines of demarcation, of any type, commercially requiring that material be cut in a certain manner; or (d) processing, such as dying, printing, showerproofing, superwashing, or other finishing operations.

38. The "country of origin" standards embodied in the regulations apply to textiles and textile products not

just for purposes of administering quantitative restrictions, but also for country of origin marking purposes, notwithstanding 19 U.S.C. § 1304, Customs' regulations contained in 19 C.F.R. Part 134 and pertinent decisions and rulings thereunder.

39. The Customs Service intends to apply the regulations to require that imports from foreign countries of textiles and textile products assembled from U.S. components be subject to quantitative restrictions and visa and export licensing requirements even if they are deemed of U.S. origin under the regulations.

40. The regulations require that all imports of textiles and textile products be accompanied by a declaration containing comprehensive information regarding materials and manufacturing and processing operations and the costs thereof. This information is proprietary in nature and originates with persons involved in the manufacturing and processing operations, not with the importer. The Customs Service will deny entry and not release merchandise from Customs custody in the absence of a properly executed declaration which contains information sufficient and satisfactory to the Service for its determination of country of origin.

41. The regulations require that visas or export licenses be presented as part of the entry documents for

entries of textiles or textile products for immediate transportation in bond without appraisement under 19 C.F.R. § 18.11.

IRREPARABLE INJURY

42. As of August 3, 1984, RITAC's members had in force numerous binding contracts to purchase textiles and textile products for shipment from their country of origin on or after October 31, 1984. Such contracts have therefore been made subject to the standards and procedures of the regulations on a retroactive basis. The merchandise covered by such contracts was purchased with provision for compliance with any applicable quantitative restrictions and the procurement of any necessary visas or export licenses, as well as country of origin marking, on the basis of judicial precedent and longstanding Customs principles and decisions and regulations in effect prior to August 3, 1984.

43. In many instances, the regulations have changed the "country of origin" of such merchandise from that determined under the above-mentioned precedents, principles and regulations, rendering the visas or export licenses already procured useless as they will not permit the entry of the merchandise into the United States under the new regulations. RITAC's members have thereby been deprived of the

amounts already paid in respect of visas or export licenses. In addition, the changed country of origin requires remarking of goods. Most important, RITAC's members are in jeopardy of losing most, or all, of the value of the goods, payment for which has typically been secured by irrevocable letters of credit. This is because, to a large extent, the necessary quota from the newly designated country of origin is not available, so the goods in question will be delayed or denied entry into the United States.

44. As applied to textiles and textile products not wholly the manufacture, product or growth of a single country, the regulations have eradicated the predictability of country of origin determinations, which has been achieved by the development of judicial precedent, Customs principles and decisions and the marking regulations.

Because the regulations were promulgated without prior notice, without regard for pre-existing contracts, and without regard for prior practice, RITAC's members are experiencing disruption and dislocation of their purchasing arrangements for textile and textile products, and serious interference with, and nullification of, their rights under pre-existing contracts.

45. The regulations' declaration requirements impose a heavy burden on RITAC's members and present funda-

mental difficulties in gathering information which is usually proprietary to the producer. Moreover, the regulations permit the Customs Service to deny entry while Customs makes a determination of country of origin based upon the declaration, with no deadline set for this determination. For these reasons, the declaration requirements threaten to cause substantial, and totally unnecessary, delays in the entry of merchandise, leading to irreparable loss of their value.

46. The regulations' requirements that imports of textiles and textile products be accompanied by visas or export licenses during in-bond movements greatly burden and restrict operations that up until now have been routinely performed and acceptable in the trade and which RITAC's members have utilized in conducting their businesses.

47. Finally, RITAC's members have an immediate and substantial interest in any new country of origin criteria established for purposes of administering quantitative restrictions or for marking purposes. They would have participated actively in the rulemaking process had notice and opportunity to comment been afforded prior to the promulgation of the regulations, as required by 5 U.S.C. § 553(b)-(c). However, because the regulations were issued without complying with these required procedures, RITAC's members have been denied their fundamental legal rights, which rights

cannot be restored unless enforcement of the regulations is enjoined.

48. For the above reasons, RITAC's members are now suffering, and will continue to suffer, and are threatened with, serious and irreparable injury, for which there is no adequate remedy at law. Defendants should be enjoined and restrained from enforcing them forthwith.

FIRST CAUSE OF ACTION

49. Plaintiffs repeat and reallege the allegations contained in paragraphs 1 through 48 above, as if set forth in full herein.

50. The regulations are "rules" as defined by Section 551(4) of the Administrative Procedure Act (5 U.S.C. § 551(4)), and their promulgation by publication in the Federal Register on August 3, 1984, constitutes "rulemaking" under Section 551(5) of the Administrative Procedure Act (5 U.S.C. § 551(5)).

51. Sections 553(b)-(c) of the Administrative Procedure Act (5 U.S.C. § 553(b)-(c)) require that an agency publish general notice of proposed rulemaking in the Federal Register, and give interested persons an opportunity to participate in the rulemaking through submission of written data, views or arguments, prior to promulgation of a rule.

52. The regulations were promulgated by the Customs Service on August 3, 1984, without prior publication in the Federal Register of a notice of proposed rulemaking and without affording interested persons the opportunity to participate in the rulemaking by the submission of written data, views, or arguments prior to promulgation, as required under 5 U.S.C. § 553(b)-(c).

53. The regulations are not exempt from the requirements of 5 U.S.C. § 553(b)-(c) in that they do not involve a foreign affairs function of the United States within the meaning of 5 U.S.C. §553(a)(1), as claimed by the Customs Service.

54. For the above reasons, promulgation of the regulations by the Customs Service was without observance of procedure required by law. Accordingly, the regulations should be held unlawful and set aside under 5 U.S.C. § 706(2)(D).

SECOND CAUSE OF ACTION

55. Plaintiffs repeat and reallege the allegations set forth in Paragraphs 1 through 48 above, as if set forth in full herein.

56. The regulations operate and are applied to determine the country of origin of textiles and textile prod-

ucts for purposes of the marking requirements of 19 U.S.C. § 1304. Such marking requirements are not within the foreign affairs function of the United States, and so the regulations are not exempt from the requirements of 5 U.S.C. § 553(b)-(c) by virtue of the exemption therefrom under 5 U.S.C. § 553(a)(1), as claimed by the Customs Service.

57. For the above reasons, promulgation of the regulations by the Customs Service was without observance of procedure required by law. Accordingly, the regulations should be held unlawful and set aside under 5 U.S.C. § 706(2)(D).

THIRD CAUSE OF ACTION

58. Plaintiffs repeat and reallege the allegations set forth in Paragraphs 1 through 48 above, as if set forth in full herein.

59. The regulations violate the terms of the MFA in numerous respects, including the following:

(a) The regulations base quantitative restrictions on textiles and textile products on their purported "country of origin", in contravention of MFA Article 3, which contemplates regulation of trade in such products based upon their country of exportation.

(b) The regulations constitute an additional non-tariff barrier to trade in textiles and textile products, in contravention of MFA Article 3, paragraph 7.

(c) The regulations constitute a scheme for the administration of quotas and restraints levels in a manner to frustrate their full utilization, in contravention of MFA Article 5.

(d) The regulations constitute a scheme to frustrate the effective operation of the MFA, in contravention of Article 7.

(e) The regulations treat as circumvention manufacturing and processing steps which constitute substantial transformation of textiles and textile products, in contravention of MFA Article 8, paragraph 1, which defines circumvention as transshipment, rerouting or action by non-participants. Moreover, the unilateral imposition of the regulations contravenes MFA Article 9, paragraph 2, which requires consultation among participating countries regarding issues of perceived circumvention.

(f) The regulations constitute additional action by Defendants which has the effect of nullifying objectives of the MFA, in contravention of MFA Article 9, paragraph 1.

(g) The regulations violate the terms of the various bilateral textile trade agreements to which the United States is a party in the manner specified above and in other respects, since these agreements are based upon and were entered into pursuant to the MFA.

60. The regulations were promulgated under color of authority of Section 204 of the Agricultural Act of 1956, as amended. That section authorizes the issuance of regulations only to "carry out" the provisions of the MFA and of the various bilateral textile trade agreements.

61. The regulations do not "carry out" the MFA and the various bilateral textile trade agreements but, to the contrary, violate them.

62. For the above reasons, issuance of the regulations was not within the delegated authority of Section 204, and the regulations are therefore in excess of statutory authority. Accordingly, the regulations should be held unlawful and set aside under 5 U.S.C. § 706(2)(C).

FOURTH CAUSE OF ACTION

63. Plaintiffs repeat and reallege the allegations

set forth in Paragraphs 1 through 48 above, as if set forth in full herein.

64. The regulations purport to establish criteria for determining the country which must issue visas or export licenses in order to permit the entry of textiles and textile products subject to quantitative restrictions. These criteria are directly contrary to the holding of the Court of International Trade in Cardinal Glove Co., Inc v. United States, 4 CIT 41 (1982).

65. Customs and CITA have no statutory authority, and are without constitutional power, to issue rules which overturn holdings of the Court of International Trade.

66. Accordingly, the regulations are contrary to constitutional power and are in excess of statutory jurisdiction and authority, and should be held unlawful and set aside under 5 U.S.C. § 706(2)(B)-(C).

FIFTH CAUSE OF ACTION

67. Plaintiffs repeat and reallege the allegations set forth in Paragraphs 1 through 48 above, as if set forth in full herein.

68. The regulations were promulgated and take action without a rational basis on the record, including the following:

(a) The regulations purport to overturn binding court precedent on the "country of exportation" requirement for a visa or export license for textiles and textile products subject to quantitative restrictions.

(b) The regulations establish visa requirements, country of origin criteria, documentation requirements, and other requirements that violate the provisions of the MFA and the various bilateral textile agreements that the regulations purportedly "carry out."

(c) The regulations establish country of origin rules that are inconsistent with court precedent and depart radically from longstanding Customs principles and decisions and marking regulations.

(d) The regulations are retroactive in their effect, impacting upon transactions entered into before August 3, 1984.

(e) The regulations were issued without developing an adequate record. No notice and opportunity to comment was afforded to interested parties, as required by 5 U.S.C. § 553(b)-(c). The requirements of the Regulatory Flexibility Act (5

U.S.C. § 603 et seq.) were disregarded, as was the requirement to prepare a regulatory impact analysis pursuant to Executive Order 12,291, despite the recognition by Defendants of the significant impact that the regulations will have.

69. The regulations bear no rational relationship to the goals that they are purportedly designed to achieve:

(a) The regulations do not prevent circumvention and frustration of textile trade agreements and thus carry them out; rather, they violate such agreements.

(b) The regulations impose requirements relating to documentation, in-bond treatment and other matters that are onerous and burdensome and restrictive and are unnecessary to achieve their stated goal of preventing circumvention and frustration of textile trade agreements.

(c) The regulations are discriminatory on their face, in that they purport to apply general principles respecting "country of origin" but apply them only to imports of textiles and textile products subject to quantitative limitations, and to no other imported merchandise.

(d) The regulations carve out an exception from their "country of origin" criteria for merchandise assembled abroad from U.S. components, so as to subject imports of such merchandise to quantitative restrictions.

(e) The regulations were issued not for the reasons stated therein but for extraneous purposes, including to disrupt trade in textiles and textile products and increase quantitative restrictions thereon in furtherance of political goals.

70. For the above reasons, the regulations are arbitrary, capricious, an abuse of discretion, and otherwise not in accordance with law, and so should be held unlawful and set aside under 5 U.S.C. § 706(2).

SIXTH CAUSE OF ACTION

71. Plaintiffs repeat and reallege the allegations set forth in Paragraphs 1 through 48 above, as if set forth in full herein.

72. The regulations are retroactively effective with respect to textiles and textile products covered by contracts entered into by RITAC's members on or before August 3, 1984.

73. The regulations operate to alter the rules under which the proper visas or export licenses for such merchandise is determined and to exclude such merchandise from the United States in the event that the visas or export licenses contemplated under the contracts in question are not correct under the new standards of the regulations.

74. The regulations thereby impair preexisting contractual rights and obligations inuring to the benefit of RITAC's members, in violation of Article I, Clause 10 of the Constitution of the United States, made applicable to the Federal Government (and, accordingly, to Defendants herein) by the Fifth Amendment to the Constitution.

75. The regulations are in excess of the authority delegated by Congress under Section 204, in that that provision does not authorize the promulgation of regulations that are retroactive in their effect.

76. For the above reasons, the regulations are contrary to constitutional power and are in excess of statutory authority, and should be held unlawful and set aside under 5 U.S.C. § 706(B)-(C).

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray that this Court enter an Order:

1. Declaring the regulations to be unlawful, and null, void and unenforceable;

2. Preliminarily and permanently enjoining each Defendant and its officers, agents, servants, employees, and attorneys, and all persons acting in concert with them, from implementing or enforcing the regulations; and

3. Awarding to Plaintiffs such other and further relief as this Court may deem necessary and proper.

August 29, 1984

Stuart M. Rosen.
Stuart M. Rosen

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STATEMENT OF MALCOLM L. SHERMAN, PRESIDENT, ZAYRE CORP., FRAMINGHAM, MA ON BEHALF OF THE RETAIL INDUSTRY TRADE ACTION COALITION, WASHINGTON, DC

Mr. **SHERMAN**. Good morning. I am Malcolm Sherman, president of Zayre Stores. The costs of quotas and restrictions in the textile and apparel trade go far beyond the measurable tariff and direct quota costs. Michael Monger in 1983 estimated tariff costs at $19 billion in current dollars and quota costs at $4.4 billion, but what we now see as the greatest cost is our inability as retailers to get the goods our customers want at a price they will pay. As a merchandiser, I know that we sign contracts to buy goods months, even a full year, before we expect delivery. Our carefully researched and advertised price points for merchandise are critical in a highly competitive retail business. By that I mean we may sell a $15 sweater while a more exclusive store may sell one for $50, but no one expects to pay $50 for a sweater in our stores, and no one holds their breath waiting for a $15 sweater in that exclusive store. Sudden policy shifts can cancel long standing orders or embargo them. Without advance notice, we can't simply find in weeks an alternate source of supply when capacity has been locked in for months. If new restrictions boost prices, if we can only get a $50 sweater, our price point is blown. Our customers can't afford it, or if they can, they would just as soon buy it at that exclusive store. The impact of these restrictions is felt most by those who can afford it least because middle and lower income customers will see only higher prices and little budget priced merchandise. In some cases, there is no American-made substitute even at twice the price. Customers end up paying more for less. I have brought some examples with me.

[Mr. Sherman's assistant is displaying the clothing.]

Mr. **SHERMAN**. This merchandise is representative of what stores are now carrying for the fall season. It will cost 17 percent more than a comparable outfit did a year ago, $34 instead of $29. The price difference is the direct result of higher quota charges. The price foreign manufacturers bid for the right to export to the United States. Our quota restrictions set up this futures market, and Americans pay the bill. Now, what are these higher prices protecting? Of these three garments—one a fisherman-knit sweater—is not produced in the United States. Comparable shirts and pants are made here but at a cost of $7 higher in each case. The three-piece imported outfit would cost the customer $34. The two-piece domestic outfit would cost the same. Now, consider the effect if the recent country of origin rule chokes off the sweater supply. Consider what the price of the domestically produced blouse and pants will rise to if there is no competition from imports. That is what we have to explain to our customers. Some other examples. A retailer bought sweaters from Taiwan that sold here in 1983 for $10. He wanted 2,000 dozen to sell right now, but the manufacturer quoted him a first cost 47 percent higher than 1 year ago and could promise him only half the order. The quota category was full. So, the sweaters will cost $13.99 this year—made in the United States, these sweaters would have to retail for between $25 and $35. The girl's corduroy jumper was ordered a year ago. The U.S. Government called this category of imports in January, thereby stopping deliveries. When the retailer sought an alternative source, he found that his $11.45 imported retail would have to become a $23.13 U.S. made garment. Because he did not want to double the price of the jumper to his customers, he simply dropped the line. And a retailer ordered 5,000 dozen shirts from Korea 1 year ago for delivery by Christmas of this year. Korea ran out of quota in the category, so the order was canceled and placed in Indonesia, but at a price 13 percent higher. In June the Government called the shirts from Indonesia, halting delivery despite the retailer's guarantee letter of credit. Disappearance of certain goods, shortages, higher prices are the cost of protectionism to the consumer.

Because they are not visible, they are a hidden tax. We believe that discussions are more visible if the trade debate proceeds out in the open and then policymakers will pay more attention to choice and value. Remember, people vote in our stores every day. We listen. Thank you very much, gentlemen.

Senator DANFORTH. Thank you, sir. Mr. Gluckson?

STATEMENT OF SIMEON GLUCKSON, CHAIRMAN, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS/TEXTILE AND APPAREL GROUP, NEW YORK, NY

Mr. GLUCKSON. Thank you very much, Mr. Chairman. My name is Sim Gluckson. I am chairman of the Sunrise Knitwear Co., and I appear before the committee in my capacity as chairman of the Textile & Apparel Group of the American Association of Exporters and Importers. I am accompanied by Michael Daniels, our counsel to TAG, and Mr. David Seiniger, CEO of Marisa Christina, who is also a member of TAG and will make a separate statement. The members of TAG are leading importers, importer-manufacturers, and importer-retailers of textile products, largely apparel. Our members account for a substantial portion of the trade. I happen to agree with the prior testimony that 1985 will be a difficult year in the apparel trades. I think we have a very complex problem, and as I admire you sitting there, I realize the complexity of the situation. This is not a simplistic matter. It would be difficult to convey to the committee our complete frustration with the Government textile policy on both sides. The Government's administration of the textile program is unfair, arbitrary, and unjustified. These actions are motivated almost solely by political considerations, at this point, and are violative of both U.S. law and international obligations.

A careful analysis of the figures that you approached, Senator Moynihan, will show that in 1984 everyone brought into this country in 6 months what they had planned to bring in for a total year because there was no certainty of getting the merchandise entered into the United States. I think the balance of the 1984 figures will belie the fact of a 64-percent increase, and we have already stated this to the Commerce Department much earlier in the year. What started 28 years ago as a temporary program to give time for adjustment has become a program of permanent protection despite repeated pledges of liberalization embodied in international agreements. We have experienced a constant tightening of the regime which accelerates in Presidential election years. It has become almost intolerable to run our businesses and make forward plans. On December 16, 1983, under pressure from the textile lobby, the administration issued new criteria for calls leading to the imposition of quotas. There have been a tremendous number of new quotas established. Since that time, there have been 119 calls leading to these new quotas. Since January 1, 1983, there have been 196 new quotas covering trade of $1.6 billion. At present, we estimate that 90 percent of the apparel trade is covered by quota, and so far in 1984, we have experienced 75 embargos. We have heard that these actions are justified because of increasing imports. The attached table—which we have submitted—demonstrates that in this period of economic recovery and growth, the textile and apparel industries have also grown and prospered with no real evidence of injury. The most recent bombshell has been the new rules of origin promulgated in August. These rules completely overturn principles of law established since 1908, which were clearly enunciated by court decisions and administrative findings. All of our agreements with supplying countries were based on existing law, and importers relied on these rules when entering into binding contracts and forward planning.

These actions have created utter chaos in the marketplace. They place impossible burdens of documentation on importers. We feel they are unjustified and unworkable. It is important to emphasize that the new rules were implemented without adequate notice or the opportunity to comment or to contribute our ideas and expertise. We are in the hands of a bureaucracy operating by fiat, unrestrainted by the rule of law, subject to intense political pressure, and isolated from the very people it affects. This is a bad trade policy and bad domestic policy. Our trading partners have resorted to retaliation which cost the American farmers over $0.5 billion in trade with China. There are threats of further retaliation. The foreign suppliers came to believe that the only way to deal with textile protectionism is by fighting fire with fire-through retaliation. We are not only hurting American exporters but threatening the entire world trading order.

It is imperative that the textile and apparel sections be brought into the mainstream of American trade policy. These industries should no longer ~~be~~ treated as an isolated industry, and the trade policy should not be continually abused to appease the domestic textile industry. The MFA has been a failure due to violations of the agreement. The MFA must not be renewed in 1986, unless fair procedures and a definite and reliable plan for the phasing out of controls is formulated and guaranteed. We hope this committee, next year, will take the lead in a thorough investigation of the textile program in light of the American trade policy and the economic objectives of our country. We stand ready to cooperate in such an endeavor. Thank you for allowing me to make this presentation.

Senator DANFORTH. Thank you. Mr. Seiniger.

[Mr. Gluckson's prepared written statement follows:]

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Textile & Apparel Group

Statement of Simeon Gluckson
on behalf of the
Textile and Apparel Group
of the American Association of Exporters and Importers
before the
Subcommittee on International Trade
Senate Finance Committee

September 18, 1984.

Mr. Chairman, Members of the Committee:

My name is Simeon Gluckson. I am the Chairman of Sunrise Knitwear Co., Inc. I appear before the Committee in my capacity as Chairman of the Textile and Apparel Group (TAG) of the American Association of Exporters and Importers. I am accompanied by Michael P. Daniels, Counsel to TAG and David Seiniger, a member of TAG, who will make a separate statment. The members of TAG are leading importers, importer/manufacturers and importer/retailers of textile products, largely apparel. Our members account for a substantial portion of the trade.

It would be difficult to convey to the Committee our complete frustrations with government textile policy, the textile program and its administration. Actions taken by government are unfair, arbitrary and unjustified. They are motivated almost solely by political considerations, and are violative of both United States law and international obligations of the United States.

What started, twenty-eight years ago, as a temporary program to give time for adjustment has become a program of permanent protection. Despite repeated pledges of liberalization, embodied in international agreements, we have experienced a constant tightening of the regime, which accelerates in presidential election years.

It has become intolerably difficult to run our businesses and make forward plans. On December 16, 1983, under pressure from the textile lobby, the Administration issued new criteria for calls leading to the imposition of quotas. These rules clearly violate the Multifiber Arrangement. Since that time there have been 119 calls leading to new quotas. Since Jaunary 1, 1983 there have been 196 new quotas covering trade of 1.6 billion dollars. At present we estimate that 90 percent of the apparel trade is covered by quota. So far in 1984, we have experienced 75 embargoes.

We have heard that these actions are justified because of increasing imports. As the attached table shows, in this period of economic recovery and growth the textile and apparel industries have also grown and prospered, with no evidence of injury.

The most recent bombshell has been the new rules of origin promulgated in August. These rules completely overturn principles of law established since 1908 and clearly enunciated by court decisions and administrative rulings. All of our agreements with supplying countries were based on existing law and importers relied on these rules in entering into binding contracts and forward planning. These actions have created utter chaos in the market place. They place impossible burdens of documentation on importers. They are unjustified and unworkable.

It is important to emphasize that the new rules and quota actions were taken without adequate notice or an opportunity to comment or contribute our ideas and expertise. We are in the hands of a bureaucracy, operating by fiat, unrestrained by the rule of law, subject to intense political pressure, and isolated from the very people it affects.

This is bad trade policy and bad domestic policy. Our trading partners have resorted to retaliation, which cost American farmers over one-half billion dollars in trade with China. There are threats of further retaliation. If foreign suppliers come to believe that the only way to deal with textile protectionism is by fighting fire by fire through retaliation, we are not only hurting American exporters but threatening the entire world trading order.

In the end American exporters and consumers will pay the price for politically expedient, but short-sighted actions --- exporters in lost markets and consumers in a hidden tax and a concealed subsidy to domestic industry.

It is imperative that textile and apparel actions be brought into the mainstream of American trade policy. These industries should no longer be treated as an isolated industry, and trade policy should not be continuely abused to appease the domestic textile industry. The MFA has been a failure due to violations of the agreement. It either must not be renewed when it expires in 1986 or fair procedures and a definite and reliable plan of phasing out of controls must be formulated and guaranteed.

We hope that this Committee next year will take the lead in a thorough investigation of the textile program in the light of American trade policy and the economic objectives of our country. We stand ready to cooperate in such an endeavor.

Thank you.

SELECTED STATISTIC

Textile Mill Products

	1982	1983	Percent Change	January - July 1983	January - July 1984	Percent Change
All employees (000's)	749.4	743.5	(0.8)	730.5	760.9	4.1
Production Workers (000's)	642.1	641.1	(0.2)	627.9	658.9	4.9
Production Workers Aggregate Average Weekly Hours, Total (000's)	25,491	28,208	10.7	27,062	28,728	6.2
Production (million dollars)	46,562	52,918	13.7	29,318	32,983	12.5
Net Sales (million dollars)	41,653	47,993	15.2	22,604 1/	25,131 1/	11.2
Net Income (million dollars)	991	1,599	61.4	716 1/	921 1/	28.6

Apparel and Related Products

	1982	1983	Percent Change	January - July 1983	January - July 1984	Percent Change
All Employees (000's)	1161.1	1164.1	0.3	1142.3	1208.8	5.8
Production Workers (000's)	981.2	989.3	0.8	965.0	1024.1	6.1
Production Workers Aggregate Average Weekly Hours, Total (000's)	35,029	37,099	5.9	35,705	38,813	8.7
Estimated Production (million dollar)	49,346	55,406	12.3	30,720	32,605	6.1

Source: Compiled by International Business and Economic Research Corporation (IBERC) from U.S. Government Statistics

1/ First two quarters

STATEMENT OF DAVID SEINIGER, PRESIDENT, MARISA CHRISTINA, NEW YORK, NY

Mr. SEINIGER. Yes, Senator. My name is David Seiniger. I am chairman, president, CEO, and owner of Marisa Christina of New York. I am not a lawyer, and I don't represent any organization. I represent myself and my company, and I help the importers. I have been an importer for 30 years, from Hong Kong, Italy, Uruguay, and Scotland. I import not just to use cheap labor. I import because my product is a quality product. Over the years—and I have listened to the testimony here about the production in the United States—over the years and as recently as this last year, I have tried to make things in Brooklyn, Pennsylvania, Puerto Rico, and Maine. Unfortunately, it just does not work. It is not because of the cheap labor. The labor that we need here does not exist today. There is also an unwillingness on the part of most of the domestic industry to work with us. They want big quantities, big runs, big production. The other thing is that the price is at least 40 to 80 percent higher, but what concerns me most is that I am an American, too. I am not the enemy. I pay taxes. I employ a lot of people. These new regulations that have come out—I have seen the effect of them. Last year there was an embargo put on skirts in August. I had a division called Sonia Rykiel knits that I started in 1982. We did $12 million. This year we do zero. I believe in free trade. I believe in trade with our allies. I think that wheat should be sold to China, oranges to Hong Kong, and whatever other American products are made, but I cannot understand our Government being so arbitrary with both foreign governments and with myself. Again, I say I am an American also. All I want is to be treated fairly.

The regulations as they are proposed particularly concerning country of origin, which is a major switch in the Government's policy, have come about, I am told, primarily because the Government is concerned with fraud and abuses, and I agree that they can exist and some abuses do exist. But don't find us all guilty. This is like killing a chipmunk with a shotgun. To kill all importers because some can't be trusted seems to me to be ridiculous. Second, I think the rules as they have been put out and have been extended until the 31st of October are totally unrealistic and they cannot be followed honestly. The forms to be completed are practically impossible to complete. We already file quota statements, visas, all kinds of redtape. Now, they are asking us to put out things that are practically impossible to do. We make sweaters that are sometimes made from five or six yarns and made in five countries. I agree with Ambassador Brock and Secretary Lenahan. We should find these guilty people. I think if they can find them, fine—send them to jail. I think that is marvelous, but I say don't kill us all. I would also like to help the Government, but nobody asks us. All we do is get a rule. These calls that Mr. Gluckson talked about—they come about overnight, and suddenly I wake up one morning and they say, by the way, Mr. Seiniger, you can't bring in skirts any more. I say, well, that is nice—I am out of business. We have had a delay in the implementation of these rules until October 31. This was to save the Christmas season. I can tell you from personal experience—when I drove out to JFK yesterday—that the paperwork and the impossibility of clearing anything is horrendous. But most importantly, what has happened is that I don't always work on letters of credit. I have been doing this for a long, long time. And my word is my bond, and if I can't go to these suppliers—be it Italy, Scotland, or Hong Kong—which they like to pick out—or Taiwan—then I can't make future contracts. I can't do anything. No one in Hong Kong wants to make a contract with me. Why? They don't know what the American policy is going to be in the next 2 hours, and I find that that whole attitude that we are the guilty people, that we are destroying America is really not fair. I also think that the American consumer is really going to get hurt. Again, I have tried to make it here, and I have tried to the best of my ability. If these regulations are not modified, I really believe that millions of people—myself and yourself included—are going to pay at least 40 to 80 percent more for clothing over the next years. That is, if we can get the quality that is made overseas.

Senator Danforth, I appreciate being allowed to testify before you.

Senator DANFORTH. Thank you, sir.

[Mr. Seiniger's prepared statement follows:]

Statement of David Seiniger
on behalf of
Marisa Christina Incorporated
before the
Subcommittee on International Trade, Senate Finance Committee
September 18, 1984

Gentlemen:

My name is David Seiniger. I am Chairman, President and Chief Executive Officer of Marisa Christina, Inc., a sweater importing company and has been in business for 15 years. Prior to that I was President at Empire Imports, also a sweater importing company, which was in business since 1929. I import better price ladies' sweaters and skirts from Hong Kong and Italy, and I am currently negotiating with Israel. I import not, repeat, not to use cheap labor, but to make a product for the American consumer that in cold fact cannot be made in the U.S. of the same quality or of any comparable price.

Over the years I have tried very hard to make our product in this country. As recently as last year I attempted to make these products in Pennsylvania, Maine, New York and Puerto Rico. The reasons it does not work in the U. S. are as follows:

(1) The labor force simply is not available to do the hand work and finishing that we require.

(2) American domestic mills will not and don't want to make the samples we require, nor the smaller quantities we must make to give our collection a complete fashion picture.

(3) If I could find the labor or the willingness to work with a domestic mill (which as I said before, I cannot) the ultimate price to the American consumer would be from anywhere to 40-80% higher on those products due to higher costs domestically.

I am appearing before you to appeal to you to have the Government reconsider the impact and the timing of the new regulations concerning country of origin. I have seen at first hand the impact these regulations can cause. Only last year an overnight "embargo" on skirts from Hong Kong in August, which is the height of the shipping season, caused me to shut down a whole division of my company. This company was Sonia Rykiel Knits. In 1982 we produced $6 million or $12 million at the consumer's level. This, incidentally, was our first year in business. In 1983 we were fortunate to do $1½ million and in 1984 we are out of business.

As an American, I feel very strongly that free trade with our allies, underdeveloped countries and even countries behind the Iron Curtain is a fundamental axiom of our whole business and governmental philosophy. Certainly, we want to sell wheat to Russia and China, oranges to Hong Kong and tobacco to Japan, and a variety of other products so necessary to the fundamental economic stability of our economy. How then, can we be so arbitrary in dealing with our trading partners? Why antagonize such a large portion of the free world over a problem which, in my opinion, can be quickly corrected without such drastic action. But above all, how can my own Government be so arbitrary and unfair with me as an American businessman?

Let us take a look at the new regulation. The reason given by the Commerce Department for this new regulation is that there are fraudulent abuses and circumvention relative to the present country of origin rules. These rules have been in existence since the very beginning of the multi fibre arrangements. I agree fully with Ambassador Brock and Assistant Secretary of Commerce Lenahan that if there are abuses, they should be stopped and the guilty fined or jailed. However to change basic rules and disasterously effect the whole system of importing can be compared to killing a chipmunk with a shotgun. I think equally important is the Government's attitude which I find morally reprehensible which is to make the assumption that we are all guilty of these evasions; all exporters, all foreign Governments and all American importers. In every other aspect of American life, we are presumed to be innocent and not guilty. I, for one, resent an attitude that says, "No matter what the effect on American Importers, and Consumers, the Government must crack all the eggs to find the few rotten."

Let's look at the new regulations less emotionally, although that is difficult for me to do. Certainly, as originally written, they are neither fair nor is it realistically possible to comply with them completely. In essence, they don't make any sense. As they originally came out, I could knit in Brooklyn, send the pieces to Hong Kong for them to be put together and hand finished, and bring them back duty free and quota free and label them "Made in USA". On this interpretation, the Government has reversed itself, I think.

Let us look at the practical side of filling out the various forms which the Government would like us to submit. We already fill out quota forms, visa forms and fibre content forms. For all practical purposes, these new forms are not possible to complete with total accuracy. To take the case of just one of our sweaters - many times these are made using 5 or 6 different yarns - some natural fibre, some man-made, all of which come from different countries. We are now being asked to give an exact breakdown as to how much of each yarn is used and where it came from in each garment. It is not that this is impossible to do, but the time required and the bureaucratic red tape is such that the timing is disasterous when working with seasonable fashion merchandise.

Let's analyze existing contracts, letters of credit and above all, my own word of honor. Having been in this business for as long as I have, 90% of my committments are made by me giving my word to suppliers I have worked with for many years. They should be able to plan production, and count on a certain amount of business from me. I will not be able to do this. I cannot take the risk, nor can I allow them to take the risks, of setting aside production time or buying yarn when they don't know from one moment to the next what the U. S. Government might do.

In summation, let me say that I do agree with Mr. Lenahan, Customs, the Treasury and the Commerce Department that people who break the rules should be stopped. But I ask you as I have asked them - Why don't they ask our help? Why don't they ask our advice? Clearly putting me out of business is not the answer. Not only is it un-American to treat me as if I am guilty, but also to make contracts worthless and to make my word meaningless. In short, I ask you to consider the overall and long range impact of these regulations. Just to worry about Christmas 1984 which is what has happened up until now with the October 31 extension is only a band aid on a mortal wound.

One other factor which I hope you will consider. It is not only me and other importers who will be hurt nor just my suppliers. It is the people that I employ, the freight companies I use and the retailers I sell. Millions of American consumers, all of us, you and me, facing the facts that if these rules are not amended, nor if sufficient time is not given to enable a reasonable transition to close up the loopholes, that prices for the American consumers on all clothing and textile products will raise at least 40-80% over the next several years. Just yesterday morning I was advised by telex from Hong Kong that, because of the uncertainty and fear existing in Hong Kong, that if it necessary to produce everything in Hong Kong, the prices on all our existing styles will be increased 30-40%, which will be passed on to the American consumer.

Gentlemen, I appreciate the right to appear before you and I appreciate your courtesy in listening to me and hearing my point of view.

Senator DANFORTH. Mr. Seiniger, you have pretty well answered the question, but I would like the rest of you to tell us what you think the result of the rule of origin regulation will be on your business?

Mr. GLUCKSON. If you don't mind, I will answer first, Senator Danforth. At a meeting of IRTAG last Tuesday, I raised the May Day signal. I think we are in tremendous distress. My son just came back from Hong Kong where they refused to bid on any merchandise for the spring of 1985 and won't even discuss the fall. We have lost the credibility that we have built up after being in business for so many years. I agree wholeheartedly with Mr. Seiniger. It came as a great shock to us—if you sit on IRTAG or ISAC or some of your other committees—that none of us were involved in any of the discussions or any of the negotiations. Government does ask and does provide a forum for American businessmen, but then, for some reason, forgets to use or ask us of our expertise during negotiations. I will tell you now that we have lost tremendous credibility, not only in the Big Three or Four, but in the emerging nations, and we have raised the wrath of our friends in Europe. And free trade becomes a laughing matter when you look at protectionism and nontariff barriers.

I think we have fought for years against nontariff barriers. We are filling them up all over the place now. We have a problem.

Senator DANFORTH. Mr. Hays.

Mr. HAYS. I would add only to that that the likelihood of retaliation because of these kinds of interim regulations and the potential they have to seriously alienate our important trading partners has already been signaled by the Chinese, and I can only tell you that last year in the dispute involving $50 million—not the $400 or $500 million we are talking about here—in Chinese textile products, the People's Republic of China retaliated by shifting $0.5 billion worth of wheat orders to other countries. So, the problems are not only technical, they are not only having a good deal to do with paper, they are not only having a good deal to do with our lack of being able to make commitments overseas with any degree of confidence that we can honor, but also the other potential damage that can be done to other American industries by the retaliation on the part of the Chinese and others.

Mr. GLUCKSON. Senator Danforth, if you don't mind for just one moment, No. 1, I would like my remarks put on the minutes.

Senator DANFORTH. All the remarks and statements are automatically put into the record.

Mr. GLUCKSON. Thank you. The other thing which is kind of interesting. If you take Hong Kong, which cannot embargo any product but can boycott, the knitwear industry there has started a boycott of American tobacco—all tobacco products—which could run anywhere between $700 million and $1 billion this current year. We are opening ourselves to all sorts of retaliation, and as I said before, I think the complexity of the situation takes much more consideration than we have given to it.

Mr. HAYS. I would add just one thing, Senator. I think the impact will probably be a shortening of the supply of goods for a period of time until there is some reallocation of resources worldwide. If those reallocations cannot take place, clearly what is going to happen—and they will be much more difficult if not impossible—further what is going to happen is the consumers are going to pay a higher price for the same kind of goods. The same kind of issues that existed in the examples by Mr. Sherman are going to become day to day, and no longer will the CPI on clothing be half of that of the CPI, but in fact it may lead the CPI and clearly all of the U.S. citizens use a lot of clothing, and it could have significant impact on inflation, I would think.

Senator DANFORTH. Some people have said that the result of the voluntary restraints on automobiles has been that the Japanese auto producers have done even better than before because although the number of units that they sell decreased, the price per car increased, making it more difficult for the consumer in the United States to buy a low-priced car as a result. Does that theory apply in your opinion to your products as well?

Mr. SEINIGER. Senator, I would say so completely. General Motors just came out last week—forget the Japanese cars—after all, it is more profitable for the Japanese or anyone else to import and export their most expensive models. They are under a quota. But the domestic market has gone up. There was an editorial in Time about a month ago. The average price of American cars has gone from $6,000 to $10,000 in a very short time. Here what will happen is exactly the same thing. People will bring in whatever they can at the highest price. As I said before, the domestic market in this country is not geared primarily to quality. It is geared to quantity. And at the same time, they want to bring their prices up. I agree with them. I think the labor prices should come up, but it will certainly end up in all of us paying a lot more.

Mr. SHERMAN. There was a classic example of this in the shoe industry in this country when the orderly marketing arrangements were put in—or agreements were put in—several years ago, the end result of those was not to reduce the amount of low-cost footwear that came into this country. What it did was attack the higher priced footwear industry because with reduced availability of quota, manufacturers overseas produced better and better quality product, competed with the better American manufacturers rather than the low end ones and hurt them and hurt them badly.

Mr. GLUCKSON. Senator Danforth, one of the illustrations I would like to bring forward to you is the fact that in the children's industry—and I noticed Mr. Sherman held up mostly children's garments—it is very difficult for anyone going overseas today to get children's garments made because of the price of the garment, and with check point prices throughout the world, you find that very few of the companies want to manufacture children's garments. You come back here and you find that the price that you have to replace the merchandise for is greater than ladies' apparel prices and sometimes is staggering. As a result, the amount of children's merchandise being offered in the stores will significantly shrink in the next few years. I think you would agree, Mr. Hays?

Mr. HAYS. Yes. It is possible it will go much higher.

Senator DANFORTH. Gentlemen, thank you very much for your testimony. The next panel is Mr. Earl Pryor, president, National Association of Wheat Growers, and Mr. Jerry Franz, vice president for legislative affairs, National Corngrowers Association. Mr. Pryor.

STATEMENT OF EARL PRYOR, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, WASHINGTON, DC

Mr. **PRYOR**. Good morning, Mr. Chairman. I am appreciative of the opportunity to testify. Unfortunately, we don't have a major part of the committee present. I would like to have spoken particularly to Mr. Moynihan.

Senator **DANFORTH**. What do you mean—you don't have a major part of the committee present? [Laughter.]

Mr. **PRYOR**. I am talking in terms of numbers, sir. Bad start already.

Senator **DANFORTH**. I am humble.

Mr. **PRYOR**. You had mentioned you would like to have us compress our testimony and summarize it.

Senator **DANFORTH**. Your written testimony will be made a part of the record.

Mr. **PRYOR**. Yes. I will do that. We come here basically as an aggrieved party. Wheatgrowers are concerned about the transfer of resources from the farm sector as a result of textile policies, and protectionist barriers are resulting in the loss of U.S. trade and jobs and farm income. The task of increasing farm exports depends on selling more to the world's developing nations. Trade is not a one-way street. We cannot expect to achieve export gains while building higher walls of protection around U.S. markets. We have had several references to the Chinese boycott of the U.S. wheat market during the 1983 textile negotiations, and the value of our exports dropped 64 percent, resulting in losses to growers not of $500 million but nearly $700 million. Since the country of origin rules went into effect on September 7, China has warned of damage to the U.S. PRC trading relationship. Retaliation in 1984 would cost U.S. growers over $500 million in lost sales. China may also decide against renewing its long-term sales agreement with the United States which expires this year. Duty investigations of textile imports from 13 countries are valued at $1 billion a year, compared to U.S. export sales to those countries valued at $2.78 billion. This is in the "ag" community. This amount of trade equates to 88,000 U.S. jobs in that complex.

U.S. exports to these countries and those impacted by the new customs rules represent 34.6 percent of the total U.S. wheat export value. Wheatgrowers are relieved that the President rejected restraints on copper imports, and we still face a decision on steel which could trigger retaliation. The farm export sector cannot absorb the degree of injury that results from protectionist actions.

The United States needs to get its economic house in order by dealing with macroeconomic problems, instead of treating the symptoms of the problem by increasing trade barriers. All trade sensitive groups should work to accomplish this. I would like to place in the record for the benefit of Senator Moynihan our preamble and our policy statement regarding domestic foreign programs. Domestic farm programs should be developed that at least partially counteract and balance the effects of imprudent monetary and fiscal policies. These policies have created the high interest rate which have led to increased cost burdens for farmers and a strengthened dollar which has eroded the competitive position in world markets for U.S. agricultural products. Current economic and trade policy must be redirected so as not to harm interest-sensitive and export-dependent industries. The counterproductive effects of protectist policies on both national and international economic activity and potentiality on the agricultural sector must be fully recognized. The United States must adhere to an aggressive consistent and open trade policy to the benefit of the overall economy. Thank you.

Senator DANFORTH. Thank you. Mr. Franz.

[Mr. Pryor's prepared written statement for the National Association of Wheat Growers follows:]

Summary Statement of Earl Pryor, President
National Association of Wheat Growers
before the
International Trade Subcommittee
Senate Finance Committee
September 18, 1984

-- Wheat growers are concerned over the transfer of resources from the farm sector as a result of textile policies, and protectionist barriers are resulting in losses in U.S. trade, jobs and farm income.

-- The task of increasing farm exports depends on selling more to the world's developing nations. Trade is not a one-way street. We cannot expect to achieve export gains while building higher walls of protection around U.S. markets.

-- China boycotted the U.S. wheat market during 1983 textile negotiations and the value of our exports dropped 64 percent, resulting to losses to growers of nearly $700 million. Since the "country of origin" rules went into effect on September 7, China has warned of damage to the U.S.-PRC trading relationship. Retaliation in 1984 could cost U.S. growers over $500 million in lost sales. China may also decide against renewing its long-term sales agreement with the U.S. which expires this year.

-- Countervailing duty investigations of textile imports from 13 countries are valued at $1 billion a year, compared to U.S. export sales to these countries which are valued at $2.78 billion. This amount of trade equates to 88,000 U.S. jobs. U.S. exports to these countries and those impacted by the new Customs Rules represent 34.6 percent of total U.S. wheat export value.

-- Wheat growers are relieved that the President rejected restraints on copper imports, but we still face a decision on steel which could trigger retaliation. The farm export sector cannot absorb the degree of injury that results from protectionist actions.

-- The U.S. needs to get its economic house in order by dealing with macroeconomic problems, instead of treating the symptoms of the problem by increasing trade barriers. All trade-sensitive groups should work together to accomplish this.

Statement of Earl Pryor, President
National Association of Wheat Growers
before the
International Trade Subcommittee
of the
Senate Finance Committee
on the
State of the Textile Industry
September 18, 1984

Mr. Chairman and members of the Subcommittee:

The nation's wheat growers appreciate this opportunity to present their views today on the subject of the U.S. textile industry. I am Earl Pryor, a wheat farmer from Condon, Oregon and president of the National Association of Wheat Growers.

First, I want to make it clear that I appear here today not as a specialist on the textile industry or an an advocate of policies which would weaken its viability. I appear because substantial resources have been transferred from the farm sector as a result of textile trade policies implemented by the Reagan Administration in 1983 and 1984, and because, as a farmer, I can see that these protectionist barriers are being paid for through substantial losses in U.S. trade, jobs and farm income.

Unlike the 1970's when rising world demand and a weak U.S. dollar brought substantial gains in the farm export sector, we are currently experiencing a steady reversal in export volume, and the U.S. Agriculture Department projects that trade for fiscal 1984 will decline for the fourth consecutive year. U.S. agriculture, and the wheat industry in particular, is export-dependent, and economic recovery will not occur unless farm exports are increased.

Moreover, the task of boosting farm exports depends in large measure on selling more to the world's developing nations where substantial growth potential exists. It follows, therefore, that developing countries will not be able to purchase U.S. farm products unless they can generate earnings from the sale of their own goods. Stated differently, trade is not a one-way street. We cannot expect to achieve export gains while at the same time building higher walls of protection around U.S. markets.

The most recent example of protectionist injury to the U.S. wheat sector is also the most dramatic. During the protracted U.S.-China textile negotiations of 1983, the Chinese boycotted the U.S. wheat market, and the value of our exports to this market declined to $377 million from a level of $1.05 billion in the previous year -- a 64 percent drop representing losses to U.S. growers of nearly $700 million.

While the level of wheat exports to China improved during the first part of 1984, and official statements were made that this year's minimum six million ton purchase obligation and 1983's 2.2 million ton shortfall would be met, China has not been in the U.S. market to cover these commitments, and we fear that the so-called "country of origin" textile rules which took effect on September 7 will cause China to once again abandon the U.S. wheat market and her purchase obligations. The Chinese government is very upset over the new customs service regulations, and it has urged that they be withdrawn to "protect the normal trade relationship between the two countries from being unecessarily damaged." If China does retaliate, the cost to U.S. wheat growers will be over $500 million between today and the end of December. Further, the real prospect exists that China may decide not to renew the 1980 Grain Supply Agreement with the U.S. which expires at the end of this year. If this happens, we can expect to incur a substantial reduction in our market share and long-term losses to growers.

In addition to the Customs Service's rule changes, there is also the issue of the Commerce Department's countervailing-duty investigation of textile and apparel imports from thirteen countries. These imports are valued at $1 billion a year, and according to Commerce Secretary Baldridge account for 3.7 percent of the total U.S. textile market. During 1983, the thirteen countries named in this investigation imported $1.58 billion worth of feed grains, $507.2 million of soybeans and $695.9 million dollars of wheat from the U.S., for a total of $2.78 billion.

The value of these export markets can also be measured in terms of jobs. The U.S. Agriculture Department estimates that for every additional one billion dollars in farm exports 31,700 new jobs are created. Using that figure, the $2.78 billion in farm commodity exports represents 88,126 jobs. When U.S. wheat exports to the 13 courntries considered above are combined with those countries which would be most affected by the Customs Service's rule changes (China, Hong Kong, Korea, Japan, Taiwan, Bangledesh), the stakes in this controversy become even clearer, amounting to $1.16 billion in 1983, or 34.6 percent of total U.S. wheat export value.

It is impossible to determine the degreee of retaliation these countries might take when their textile and apparel exports to the U.S. are restricted. Judging, however, from past experience they will likely diversify their sources of food imports. We are not saying that we will lose all of these markets, but we are all but certain to lose market share, as our competitors in the world wheat export market (Australia, Canada, Argentina and the EEC) have demonstrated their ability and willingness to absorb our lost or forfeited market shares.

Mr. Chairman, trade issues cannot be compartmentalized, and the impact of protectionist decisions can too easily spill-over into other sectors. Moreover, the cost of this fallout, as was seen in the 1983 textile dispute, can easily eclipse the value of the protection sought for a domestic industry.

Right now, it appears as though the government is playing "billiards" with U.S. trade policy. We are thankful that no shot was taken on copper imports, but we have had a direct hit on textiles and we still face a decision on steel which could bring retaliation. Our farm export sector simply cannot stand the degree of injury that results from such protectionist actions, and we hope that this fact is realized before it is too late.

We need to get our economic house in order, for our trade dislocations are the direct outgrowth of an overvalued dollar. We are treating the symptoms of this dollar aberration. We believe that all trade-sensitive groups should pool their resources, working towards a solution to this debilitating condition.

Thank you Mr. Chairman for this opportunity for the National Association of Wheat Growers to appear before your subcommittee. I will be pleased to respond to questions at the appropriate time.

STATEMENT OF JERRY FRANZ, VICE PRESIDENT FOR LEGISLATIVE AFFAIRS, NATIONAL CORN GROWERS ASSOCIATION, WASHINGTON, DC

Mr. **Franz**. Yes, sir, Mr. Chairman. I am Jerry Franz, vice president for legislative affairs of the National Corn Growers Association and a corn and grain farmer from Wisconsin. I am very pleased to present the views of the National Corn Growers Association in these hearings today, and I would be happy to summarize my testimony at this point.

One, we are concerned about the U.S. textile industry's effort to further restrict textile imports from the People's Republic of China and other supplying countries.

Two, we passed a resolution to that effect at a recent board meeting.

Three, as was mentioned some time earlier, it is public knowledge that PRC is dragging its feet on grain imports because of textile concerns.

Four, the most immediate casualty of such restrictions would be the long-term grain agreement between the PRC and the U.S. Government. More importantly, such a development will begin to demonstrate to not only the People's Republic of China but other countries that the United States is an unreliable buying customer—the flip side of being a reliable supplier, which is something we in grain have been struggling through the last few years.

Five, the demand for protectionism is gaining momentum unfortunately.

Six, U.S. grain agriculture is not in any condition today to suffer declines in lost export opportunity and/or sales because of special narrow interest groups making uneconomic arguments for import protection. And of course, here the initial impact is on wheat. But that when wheat backs up in this country, it then depresses its price so badly that it is a feed grain instead of a food grain. And then, of course, corn comes into play.

Seven, the ultimate cost for the growing degree of protectionism in the United States is the American consumer.

Eight, the consumer pays twice. First he pays more for goods and then again for supply and management programs because of loss of market.

Nine, knowing full well that U.S. agricultural exports are the largest net contributor to our balance of trade accounts—and we just heard this morning's news that that is now determined to be over $24 billion for the second quarter—short-sighted measures to restrict imports from major foreign countries will only result in additional erosion of U.S. corn and agricultural exports to those countries; and

Ten, to just summarize generally, protectionism hurts U.S. agriculture. We are competitive on the world market. U.S. agriculture comprises over 20 percent of the total U.S. economy and I would urge other sectors of the economy to also work to become competitive. And I appreciate this opportunity to present the position of the National Corn Growers Association and would be pleased to attempt to answer any questions. Thank you, Mr. Chairman.

Senator **Danforth**. Thank you, gentlemen.

[Mr. Franz's prepared statement follows:]

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U.S. TEXTILE INDUSTRY: PLEA FOR PROTECTIONISM

by

Jerry Franz
Vice President - Legislative Affairs
National Corn Growers Association

before the

Subcommittee on International Trade
Committee on Finance
United States Senate

on

September 18, 1984

I am Jerry Franz, Vice President for Legislative Affairs of the National Corn Growers Association (NCGA), and a corn and grain farmer from Poynette, Wisconsin. Accompanying me today is Michael Hall, the NCGA Washington Representative, and we are very pleased to present the views of the National Corn Growers Association in these Hearings today. In the interest of brevity, my remarks are succinct and to the point with respect to the views of the National Corn Growers Association about the status of the U.S. textile industry and its "plea for protectionism."

At a recent meeting of the Executive Committee of the Board of Directors of the National Corn Growers Association, the following resolution was adopted about the U.S. textile industry's effort to further restrict textile imports from the Peoples' Republic of China and other supplying countries:

> Whereas, the National Corn Growers Association is committed to working toward expanding demand rather than restricting production; whereas demand incentive programs are more cost effective than supply reduction programs; and whereas the limited importation of Chinese textiles last fall caused U.S. farmers an estimated half billion dollars: Be it resolved that the National Corn Growers Association strongly opposes any trade rules or changes by the International Trade Commission and/or the Administration that would jeopardize China's access to the American market. Any further restrictions will have a direct negative impact on already depressed net farm income and ultimately, on the total U.S. economy.

During the past year, grain purchasing officials and government officials of the Peoples' Republic of China have all but indicated that any unilateral initiatives by the U.S. Government to further restrict PRC textile exports to our market would be countered by reductions in PRC grain purchases from the United States. As a matter of fact, the People's Republic of China is still lagging behind in the minimum purchase obligation of six (6) million tons of grain from the United States each year. The simple reason for the lost grain export sales last year, now continuing into this year, is the concern of PRC trade officials that the United States will again restrict PRC textile exports to the United States.

If the current recommendations of the International Trade Commission are put into place vis-a-vis textile imports from the Peoples' Republic of China and other developing country suppliers to the United States, the most immediate casualty of such restrictions will be the long-term grain agreement between the PRC and U.S. governments. But more importantly, such a development will begin to demonstrate to not only the Peoples' Republic of China, but other countries, that the United States is an "unreliable buying customer" -- the flip side of the same coin of being a "reliable supplier" of commodities.

With respect to the initiatives and petitions of various sectors in the U.S. industrial community for import protection for any number of reasons, the United States is rapidly becoming more protectionistic with each passing day. The list of industrial sectors requesting import protection for foreign competition only grows with the success of each industrial sector pleading for import protection:

- automobile
- specialty steel
- footware
- copper
- wine
- textile
- telecommunications

In each of the above sectors either requesting and/or obtaining import protection from foreign competition, the burden of bearing the adjustment and/or cost of reduced trade lies with U.S. agriculture -- particularly the grain sector of U.S. agriculture. And U.S. grain agriculture is not in any condition today to suffer declines in lost export opportunity and/or sales because of special, narrow interest groups making uneconomic arguments for import protection.

The ultimate cost for the growing degree of protectionism in the United States is the American consumer. With the granting of import protection to any industry, the American consumer only faces higher prices for domestically produced goods sold at prices undisciplined from competition. Then the consumer -- who is the ultimate tax payer -- pays again in terms of costly supply management programs to reduce grain production in the United States because foreign countries turn to other grain supplying countries in retaliation for these U.S. Government decisions.

On behalf of American corn farmers, we urge you, Mr. Chairman and Committee members, to reject the arguments and pleas for "temporary" import protection for the textile and other industries. Knowing full well that U.S. agricultural exports are the largest net contributor to our balance of trade account (which, I should mention, is now determined to be over $24 billion for the second quarter), short-sighted measures to restrict imports from major foreign countries will only result in additional erosion of U.S. corn and agricultural exports to those countries.

I appreciate having the opportunity to present the position of the National Corn Growers Association, and will be pleased to attempt to answer any questions.

Senator **Danforth**. I have just a couple of questions. I take it there is no doubt in your mind that protectionist policies in the United States have in the past had a serious impact on agricultural exports, and you believe that they will in the future. Is that correct?

Mr. **Franz**. No doubt about it.

Mr. **Pryor**. Absolutely. It has been demonstrated more than once.

Senator **Danforth**. It has been clearly demonstrated, hasn't it?

Mr. **Pryor**. Yes.

Senator **Danforth**. I mean, there is absolutely no doubt about it?

Mr. **Pryor**. Correct.

Senator **Danforth**. Now, I don't know the situation in the rest of the country, but I do know we have a number of garment workers, textile workers in the State of Missouri. We have had witnesses testify from my State today—Monsanto, obviously, a major company in St. Louis and a major employer, on how they are affected by imports. I also represent an awful lot of farmers. And the picture I get when I travel around the State is one of disaster. High costs, high interest rates, low commodity prices, and bankruptcies. We had in Missouri a drought—virtually no corn crop. It is true that there are a lot of people in various lines of work who have been impacted by imports, but is my impression generally true, or is that just in Missouri—that the farmers now—many of them—are having a desperate time and that anything that impacts negatively on the price that they can get for what they do produce is really a case of kicking somebody when he is down.

Mr. **Franz**. I certainly would agree with you. That is very accurate. There is a good percentage of farmers who are really up to their eyeballs and at their wits' end and they really are ready to go down the tube, and it has just begun really. Just to mention Missouri, I know of one corn farmer in Missouri who was flooded out in the spring and now has been burned out. He just lost his complete crop.

Senator **Danforth**. That is right. It is just typical of this year. We had the deluge in the spring and then I was in one community around Labor Day, and I was told that the last rain that they had was on July 3, and that wasn't much. So, one of the jobs we have here is to try to do the best we can for all of our constituents, and we will certainly try to do that for the people who make textiles and make garments, and we understand the difficulty, but we also have to weigh in the other part of the equation, and that is the effect that whatever we do has on consumers and on people who depend on exports. And that would certainly include agriculture.

Mr. **Pryor**. It has been our experience in doing some research, Mr. Chairman, that generally if people in agriculture are leveraged to any degree, certainly a maximum of 30 percent now with the present interest rates, their return to investment is zero because of the coincidence of the figures. So, coming off the 1970's, there are very few farmers who were good managers who did not take advantage of that leveraging opportunity. As a result of the turnaround, they are in a very desperate situation even though they are good farm managers. Of course, you always have some people who are not the best managers in the world, and we expect people to come and go out of agriculture, but it is extremely hard to get back into agriculture again because of the high capitalization that is now in the farm community. We are more concerned in this particular instance about equal opportunity. We don't want to be burdened with the results of some unjustified decisions, we feel, and we would like to get equal treatment. I am talking about the other people here who are in the business who are making the same plea—that they need fair treatment—and we only ask to be treated in the same manner.

Mr. **Franz.** I might add that U.S. agriculture has been competitive in the world market for a number of years and that has become a large part of our market. We just can't stand these sudden jerks back and forth on our foreign markets—the impact of taking it away and being looked at as unreliable suppliers.

Senator **Danforth.** Gentlemen, thank you very much. The next panel is Mr. Richard Fink, professor, George Mason University, Mr. Stanley Nehmer, president, Economic Consulting Services, and Mr. Sidney Pulitzer, chairman of the board of Wembley Ties. Professor Fink.

STATEMENT OF RICHARD H. FINK, RESEARCH PROFESSOR, GEORGE MASON UNIVERSITY, PRESIDENT, CITIZENS FOR A SOUND ECONOMY, AND PRESIDENT, COUNCIL FOR A COMPETITIVE ECONOMY, WASHINGTON, DC

Mr. **Fink.** Mr. Chairman, I want to thank you for the opportunity to testify at these hearings on the condition of the textile industry. My name is Richard Fink and I am president of Citizens for a Sound Economy. We are a new organization, but we already have more than 36,000 members. I am also a research professor in economics at George Mason University in Fairfax, VA. As president of Citizens for a Sound Economy, I am here to speak on behalf of our members, American citizens who recognize the tremendous stake we have in a free economy. The focus of my brief testimony is the need for free and open commerce in the textile industry. As an economist, I feel comfortable in stating that the advantages of free trade are almost universally accepted at the theoretical level. Few economists would attempt to argue that protectionist measures benefit consumers or protect jobs. In fact, tariffs, quotas, and country of origin regulations have precisely the opposite effect. They cause unemployment, raise prices, and diminish consumer choice. In the case of textiles, the income and substitution effects that result from protectionist measures hurt American consumers, workers, and retailers. Ironically, we call tariffs protectionist measures. In reality, what they protect a consumer from are low prices, more desired products, and a wider range of choices. In essence, barriers to a free trade are a form of transfer payments to politically favored domestic producers and workers from consumers, workers in other industries, unemployed workers, and citizens of less-developed countries. The secondary consequences of trade restrictions are borne by citizens in a number of different categories. Trade restriction costs consumers in terms of increased prices and decreased savings, which affects capital formation and economic growth. Also, it costs retailers and retail workers. They lose sales on both the domestic and imported goods. The increase in the price of domestic products reduces sales and decreases jobs in the retail industry. The increased price of imports costs industries that use these goods as an imput. It costs exporters because the fewer the imports, the less will be the exports. It costs all industries affected by retaliation, and it affects all those workers in those industries that are affected by retaliation.

The center for the Study of American Business estimates that the cost to American consumers alone is $58.5 million in 1983 from protectionist measures, $18.4 billion in trade restrictions on textiles and apparel. If our goal is to aid the U.S. textile industry, it is not appropriate to isolate them from competition; that will only further weaken them. It is not appropriate to damage other industries, which as a result will be clamoring for protection next because of their weakened state. Rather, if we want to aid the textile industry, we need to create the best environment for these firms to increase their competitiveness—and increase their competitive health. Help the competitor build stronger muscles and sinew. Make him train and sweat. Don't strap weights on the legs of the others in the race. Don't slow down the race so that the racer can pretend that he is viable. Rather use tax credits for capital investment and increase productivity. Perhaps base the degree of credits on the success of its increased competitiveness. Remove regulations that impede the development of firms, provide incentives for workers to strive for perfection. Deal with budget deficits with a stable monetary policy. Measures that increase the competitiveness not restrict the competition are the only sound policies for economic viability in the long run. Thank you, Mr. Chairman.

Senator DANFORTH. Thank you. Mr. Nehmer.

[Mr. Fink's prepared statement follows:]

TESTIMONY OF RICHARD H. FINK, PRESIDENT, CITIZENS FOR A SOUND ECONOMY, AT HEARINGS BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE SENATE FINANCE COMMITTEE ON THE STATE OF THE U.S. TEXTILE INDUSTRY

September 18, 1984

Mr. Chairman and Members of the Subcommittee on International Trade, I want to thank you for this opportunity to testify at these hearings on the condition of the textile industry. My name is Richard Fink and I am president of Citizens for a Sound Economy~~. We~~ We are a new organization, but already have more than 36,000 members. I am also a research professor in economics at George Mason University in Fairfax, Virginia. As president of Citizens for a Sound Economy, I am here to speak on behalf of our members--American citizens who recognize the tremendous stake we have in a free economy.

The focus of my brief testimony is the need for free and open commerce in the textile industry. As an economist, I feel comfortable in stating that the advantages of free trade are almost universally accepted at the theoretical level. Few economists would attempt to argue that protectionist measures benefit consumers or protect jobs. In fact, tariffs, quotas, and country-of-origin regulations have precisely the opposite effect--they cause unemployment, raise prices, and diminish consumer choice. In the case of textiles, the income and substitution effects that result from protectionist measures hurt American consumers, workers, and retailers. Ironically, we call a tariff a protectionist measure. In reality, what it protects is the consumer from low prices, more-desired products, and a wider range of choices. In essence, barriers to free trade are a form of transfer payments to politically favored domestic producers and workers from consumers, workers in other industries, unemployed workers, and citizens of less-developed countries. I shall briefly discuss how protectionist measures effect each of these four groups and conclude with some alternatives that would better serve the interests of both the textile industry and consumers in general.

1. Consumers -- Here the case for free trade is most clear cut. According to the Center for the Study of American Business, protectionist measures cost American consumers $58.5 billion in 1980 alone. Of this, $18.4 billion came from tariffs and other restrictions on textiles and apparel. Some like to call this a hidden tax--in reality it is a hidden transfer payment--welfare--for the domestic manufacturers of the product, paid by American consumers.

This price effect is only one of the costly effects of trade restrictions. Protectionist measures--be they called tariffs, quotas, or voluntary restraints--reduce the supply of a product and thwart of consumers by restricting their freedom to choose. This is particularly true of the apparel and textile industries, where many fashions lost by barriers cannot be replaced by domestic suppliers.

2. American Workers -- By raising the prices of selected goods, protectionist measures reduce demand, both for the product in question and for other goods in the economy. Consumers must either reduce savings or purchase less the when prices of some goods, such as textiles, increase. This reduction in demand has secondary effects throughout the economy: reduced corporate earnings, lower pay, even layoffs and bankruptcies of marginally profitable companies. The retail industry, for example, employs more than 16.7 million people. Many Americans work in transportation and shipping, which are both directly affected by trade policy. Certainly a reduction in consumer demand for apparel and other textile products, even if due to well-intended protectionist measures diminishes employment and earnings in retail and related industries, and therefore reduces the economic health of the entire economy.

Another secondary effect of protectionism is retaliation. No one can predict what form retaliation will take should the U.S. continue to restrict foreign imports which are frequently the lifeblood of developing economies.

Finally, protection for labor-intensive, low-wage industries means lower wages in the U.S. Competition induces American firms to modernize and increase the capital invested per worker; this increases productivity and wages. In the absence of competition, wages generally are lower than would otherwise be the case.

3. Unemployed workers -- One of the hidden victims of protectionist measures is the unemployed worker. Most economists agree that protectionism is a negative sum-game--more jobs are lost than are saved. As Daniel Webster stated in an eloquent speech to the House of Representatives in 1824, "Commerce is not a gambling among nations for a stake, to be won by some and lost by others. It has not the tendency necessarily to impoverish one of the parties to it, while it enriches the other; all parties gain, all parties make profits, all parties grow rich, by the operations of just and liberal commerce."

Unfortunately, the victims of a quota or tariff are difficult to identify. Rarely does the laid-off truck driver or sales clerk make the connection between a country-of-origin rule and his unemployment. Protectionist measures demonstrate that the benefits of a government acts are concentrated, while the costs are greater and diffused. In a free market, capital shifts to other uses when it is to our comparative advantage to have fewer steel or textile mills and more computer stores or furniture manufacturers. In the absence of protectionist measures, capital moves to where consumer demand and, hence, return on investment are greatest. Overall employment increases. The shrinking of one sector of the economy due to low priced foreign competition would be offset by an expansion in productive capacity elsewhere in the economy. Protectionism prevents the market process from operating smoothly and thus inhibits innovation and job creation, but we cannot count those jobs that were never created due to well-intentioned actions of legislators. If the domestic textile industry were to shrink, there would mostly likely be an expansion in productive capacity elsewhere that surpassed that loss.

4. Less-developed nations -- Less-developed nations generally have a comparative advantage in low-wage industries. It is to the advantage of American workers and American consumers for foreigners to concentrate on producing these goods. Comparative advantage doesn't mean foreigners can produce certain goods more efficiently than us, but that the particular goods cannot be produced domestically as efficiently as we can produce other goods. In a very real sense, the textile industry's toughest competition comes from other demands for capital, labor, and natural resources in this country.

When the principles of free and liberal commerce prevail, foreign producers are able to earn dollars they can spend on exports from U.S. By restricting textile imports to the U.S., foreigners have less to spend on U.S. exports and less capital to use to develop.

5. Alternative Solutions -- The sensible policy of government toward the textile industry is to remove hindrances that make U.S. industries less competitive. Government need not encourage competition--it occurs naturally. What government should do is eliminate those barriers that already exist in the U.S. economy, such as high levels of taxation and regulation, which prevent the textile industry from being competitive in world markets. Moreover, corporate taxes are a cost to American producers that is ultimately borne by consumers. We should adopt a sound monetary policy that will reduce real rates of interest and the cost of borrowing capital. We should expand incentives for saving, so that capital is available for plant modernization.

In the push for protectionism, nobody has openly opposed free trade. No one wants to be on record against it because intuitively most people realize there is no more basic freedom than the right of voluntary exchange, regardless of political boundaries. So to justify their proposed interference with freedom, the protectionists switch to the fair-trade issue. Free trade is fine, they say, as long as it is fair trade. People must stop fooling themselves on this issue. They favor either free trade or protectionism. They can't have it both ways. Free trade is fair trade. In the name of both prosperity and peace, let's seek solutions to the problems of American industry, including the textile industry, that serve the interests of American consumers and workers and enhance economic freedom.

STATEMENT OF STANLEY NEHMER, PRESIDENT, ECONOMIC CONSULTING SERVICES, INC., WASHINGTON, DC

Mr. NEHMER. Mr. Chairman, for the record, my name is Stanley Nehmer. I am president of Economic Consulting Services. My full statement, I gather, will be put in the record, so I would just like to—in the 3 minutes that I have—make a few comments on what I say in my paper and what I have heard this morning. I must say, listening to the retailers, and some of the facts that were tossed at the subcommittee, I wasn't sure which industry they really were talking about, but that is for another time.

You know, Mr. Chairman, this great country of ours grew on the basis of various sectors—agriculture, industry, manufacturing, transportation—all growing together. We have a different situation occurring here where despite the very close interrelationship in economic growth among the different sectors of our economy, we find what has happened is the development of a "beggar thy neighbor" policy. What we just heard from the agricultural interests in effect was not only farmers versus textile and apparel manufacturers, but farmers versus farmers because it was the wheat farmers and the corn farmers who were beggaring thy neighbor—the cotton farmer and the wool grower. We have the same occurring with regard to the retailer insofar as their attitude toward the textile and apparel manufacturers are concerned. And yet we know that retailers in many communities depend on the health of different manufacturing industries for their own prosperity. Retail trade cannot prosper when workers in these industries are without jobs. This is equally true in the case of textiles and apparel. The domestic textile industry is the largest purchaser of cotton, and virtually the sole purchaser of all the wool clipped in the United States. It happens to be an important customer of the corn growers in the United States. The equivalent of about 20,000 acres of corn is purchased through the form of cornstarch by the textile industry, but nevertheless, we have this beggar thy neighbor policy that seems to have developed. With all respect to the retailers and to the agricultural sector, I believe that their position is quite unfair. The retailers raise the flag of consumer interests, and they formed a coalition to seek freer trade in textiles and apparel. But the retailers' alleged interest on behalf of consumers with regard to import issues, I have to say, is a convenient smokescreen for maximizing profit at the expense of firms and workers in the domestic textile and apparel industry. As for agriculture, Mr. Chairman, it benefits by the largest support in the U.S. budget by far of any sector in the U.S. economy to the tune of some $53 billion in the aggregate in fiscal year 1983. The wheat farmers alone in this country received during fiscal year 1983 some $5 billion in support from the Federal Government. In the first 8 months of 1984, the prices received by farmers rose 8 percent over the same period of 1983. Wholesale prices for textiles and apparel in the same period rose but 3 percent. I have a lot more to say. May I say a couple more things?

Senator DANFORTH. Yes.

Mr. NEHMER. Thank you, Mr. Chairman. With respect to the retailers, I think we should note that despite their complaints, imports of textiles and apparel have grown 44 percent thus far in

1984, 62 percent during the month of July alone, and a 25 percent growth in imports of textiles and apparel in 1983 over 1982. I have to say: What's the beef? They have been able to increase their imports of textiles and apparel by levels that are absolutely astronomical. With regard to consumers, I think it was Mr. Finley who pointed out that the consumer price index between 1974, when the MFA started, and 1983, the textile and apparel CPI grew at an annual rate of 3.2 percent, while the overall CPI in the same period grew by 8.1 percent.

With regard to the costs to the economy for protection of textiles and apparel, what I heard from the retailers this morning was a figure of $4.4 billion based upon some analysis done by a graduate student at the University of Washington at St. Louis, a Mr. Munger. Mr. Munger's figure is based upon a statement made by a Professor Martin Wolf of London of $3.4 billion in 1980, updated to $4.4 billion. Now, Mr. Wolf as part of his forecast said that if the MFA restraints were eliminated, there would be a decline in employment in the United States and European Community textile and apparel industry of some 33 percent between 1980 and 1990. Thirty-three percent loss in employment in this industry in the United States is somewhere around 700,000 to 800,000 jobs plus the jobs of workers in other industries. The payroll of those workers alone whose jobs would be lost would be $10 billion a year. I think I will conclude at this point. I think I have been very detailed in my testimony, and you have been very kind to give me more time.

Senator DANFORTH. You have been very forceful in your summary.

Mr. NEHMER. I wish there were other members of the subcommittee present in addition to yourself, but I know you will carry the message. Thank you, Senator.

Senator DANFORTH. Mr. Pulitzer.

[Mr. Nehmer's prepared statement follows:]

ECS ECONOMIC CONSULTING SERVICES INC.

TESTIMONY OF STANLEY NEHMER, PRESIDENT
ECONOMIC CONSULTING SERVICES INC.

Before the Subcommittee on International Trade
Committee on Finance
United States Senate

Hearing on the State of the U.S. Textile Industry

September 18, 1984

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TESTIMONY OF STANLEY NEHMER, PRESIDENT
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SUMMARY

I am concerned about the current import problems of the U.S. textile and apparel industry, which are manifested so recently in the 44 percent import growth so far this year. And I am equally concerned about the tremendous growth in the U.S. trade deficit.

I am concerned as well with what is happening among the different sectors of the U.S. economy. The United States has grown and prospered because of the combined strength of the different sectors of the economy.

Despite the interrelationship and interdependency of the textile industry, the agricultural sector and the retailers, what we see happening is a "beggar-thy-neighbor" approach on the part of the different sectors, when they feel actions by one will adversely affect them.

Retailers, raising the flag of consumer interests, have formed a coalition to seek freer trade in textiles and apparel. But the retailers' alleged interest on behalf of consumers with regard to import issues is a convenient smokescreen for maximizing profit at the expense of firms and workers in the domestic textile and apparel industry. The retailers want the freedom to offer maximum choice of product. I do not take exception to this so long as, in the process, it does not make the domestic textile and apparel industry nonviable. We do not expect imports to be shut out of the U.S. market -- they will continue to grow -- nor do we expect the doors to be flung open to imports indiscriminately.

As for agriculture, it benefits by the largest support in the U.S. budget by far of any sector of the U.S. economy, to the tune of some $53 billion in the aggregate in fiscal year 1983. There are certainly good and substantial reasons for these agricultural programs. We do no expect these programs to be abandoned. But that does not give the farmer the license to beggar his neighbor in the factories and manufacturing towns of this country.

There is no easy solution to the problem which has developed between the textile and apparel industry, retailers, and agriculture. But, I do know that this beggar-thy-neighbor approach must be abandoned. Their interests are, I believe, more in common than in conflict.

The textile and apparel industry has in place the Multifiber Arrangement, which is intended to be a program to allow orderly growth in imports. Neither agricultural interests nor the retailers should expect the textile industry to give up its only protection, as imperfect as it may be.

TESTIMONY OF STANLEY NEHMER, PRESIDENT
ECONOMIC CONSULTING SERVICES INC.

Before the Subcommittee on International Trade
Committee on Finance
United States Senate

Hearing on the State of the U.S. Textile Industry

September 18, 1984

My name is Stanley Nehmer, President of Economic Consulting Services Inc., a Washington-based economic consulting firm. Our clients include a broad range of industries, mostly those industries which have been adversely impacted by imports including various parts of the textile and apparel industry. I appreciate the opportunity to appear before the Subcommittee today concerning the state of the U.S. textile/apparel industry. I have been involved with the question of import problems of this industry for many years. Prior to retirement from the U.S. Government in 1973, I was for more than seven years Deputy Assistant Secretary of Commerce in charge of the textile import program as well as other import programs. I have continued my relationship with the U.S textile and apparel industry in my capacity as consultant to several trade associations and labor unions in the industry.

I am concerned about the current import problems of the U.S. textile and apparel industry, which are manifested so recently in the 44 percent import growth so far this year. And I am equally concerned about the tremendous growth in the U.S. trade deficit, and about increases in the trade deficit for import-sensitive products.

Last year, the U.S. merchandise trade deficit reached a record $69.4 billion. More than half of that was accounted for by the trade deficit in manufactured goods. The $10.6 billion deficit in textile and apparel trade represented more than 15 percent of the 1983 merchandise trade deficit. This year, just through July with its single-month record $14.1 billion deficit, the overall merchandise trade deficit has reached $73.8 billion, exceeding the trade deficit for all of 1983. Predictions are that the 1983 deficit will be at least $120 billion and possibly as high as $140 billion. The textile/apparel trade deficit will likely reach $16 billion this year.

Ironically, from the standpoint of trade, the United States now has something in common with developing countries such as those from which we import textiles and apparel. As Alfred Eckes of the International Trade Commission observed, the United States is importing more and more manufactured products and exporting more and more raw materials and agricultural materials. That, he said, was the definition of a developing country, not the definition of an industrialized country.

The U.S. merchandise trade deficit has contributed to growing job displacement in the United States. Government estimates show that in 1982, when the U.S. merchandise trade deficit reached a then-record $42.7 billion, the United States suffered a net job displacement from U.S. trade in manufactures of more than one million man-years. Job displacement only worsened in 1983 and 1984 as the trade deficit continued to grow.

The Commerce Department rule of thumb is that every one billion dollar increase in the trade deficit costs 25,000 jobs in the United States. Simple arithmetic tells you that the $60 billion increase in the trade deficit expected in 1984 translates to 1.5 million additional jobs lost

I am concerned as well with what is happening among the different sectors of the U.S. economy. The United States has grown and prospered because of the combined strength of the different sectors of our economy. Agriculture, manufacturing, and wholesale and retail trade have all been able to grow together as the U.S. economy has expanded over the years. Perhaps the finest example of this relationship was the development of the domestic iron and steel industry to meet the demand for rails and railroad equipment and for agricultural machinery as the Great Plains were opened to settlement and farming. Conversely, the latter could not have occurred without a growing indigenous iron and steel industry to meet the needs of the agricultural west.

The different sectors are not autonomous. For example, the health or lack of health of the U.S. textile and apparel industry has a bearing on the health of other sectors of the economy as well. In fact, there is a high degree of dependency of the U.S. economy on the textile and apparel sector.

Our firm conducted a study in 1981 on the dependency of the U.S. economy on the fiber/textile/apparel industrial complex. We found that industries which are particularly dependent on the fiber/textile/apparel complex include various agricultural products, particularly cotton and wool; rubber products; industrial inorganic and organic chemicals; paperboard; plastic materials and synthetic rubber; and miscellaneous manufacturing industries. At least five percent of the total employment of each of these industries in 1980 was dependent on final and intermediate demand of the products of the fiber/textile/apparel industrial complex. In total, 926,000 jobs were required from all industries, plus an estimated 130,000 jobs related to the delivery of the capital goods used by the fiber/textile/apparel complex and its principal suppliers. Thus, we estimated that in addition to the more than two million jobs directly generated within the fiber/textile/apparel complex, another one million jobs were dependent on this industry.

Retailers in many communities certainly depend on the health of different manufacturing industries located in those communities. Retail trade cannot prosper when workers in these industries are without jobs. This is equally true in the case of textiles and apparel -- the manufacturers, the workers, and yes, even the retailers -- have a stake in a healthy industry.

Similarly, parts of the agricultural economy cannot prosper if the textile industry is not healthy. The domestic textile industry is the largest purchaser of cotton (our study showed that 43 percent of the total employment requirements in cotton were related to demand from the fiber/textile/apparel complex) and wool. The textile industry is also a major user, if not the largest user, of corn starch. If the textile industry is not in sound health, it has some not insignificant bearing on the health of the agricultural sector.

Despite the obvious interrelationship and interdependency of the textile industry, the agricultural sector and the retailers, what we see happening is a "beggar-thy-neighbor" approach on the part of the different sectors, when they feel actions by one will adversely affect them.

Both the retailers and agricultural interests are strongly opposing textile/apparel import restraints.

I certainly don't want to be accused of joining in that "beggar-thy-neighbor" policy. But, with all due respect to the retailers and to the agricultural sector, their position is somewhat unfair to the American textile and apparel industry. Retailers, raising the flag of consumer interests, have formed a coalition to seek freer trade in textiles and apparel. But the retailers' alleged interest on behalf of consumers with regard to import issues is a convenient smokescreen for maximizing profit at the expense of firms and workers in the domestic textile and apparel industry. As for agriculture, it benefits by the largest support in the U.S. budget by far of any sector of the U.S. economy, to the tune of some $53 billion in the aggregate in fiscal year 1983. We should also note that in the first eight months of 1984, the prices received by farmers rose 8 percent over the same period of 1983. Wholesale prices for textiles and apparel rose but 3 percent in the same period.

I would like to comment more specifically on some of the arguments set forth by the retailers and the agricultural community.

With respect to the retailers:

- Restrictions under the Multifiber Arrangement (MFA) are not nearly so stringent as suggested by the retailers. These restrictions have permitted growth in imports at rates substantially in excess of U.S. market growth. Import growth of 44 percent so far this year on top of 25 percent growth last year raises serious questions about the effectiveness of the MFA.

- The interests of retailers and consumers are not the same. As businessmen, the objective of retailers is, of course, profit, and the profits they gain on imports are almost always higher than the profits they gain on the sale of domestic-ally-produced items. Those Committee members involved in passage of the Trade Act of 1974 might recall this statement in the Senate Finance Committee Report relating to import restraints: "Unemployed persons are not happy consumers. The Executive should not confuse the effect on consumers with the effect on importers or foreign producers; they are not the same."

- Increases in consumer prices have been moderate. Price increases on textile and apparel products have been far lower than the overall rate of inflation.

Notwithstanding restrictions under the MFA, U.S. consumers still get good value for their dollars spent on textiles and apparel.

- "Free" trade in textiles and apparel will mean the sacrifice of American jobs. Job creation in the service sector is not a solution because many of these service sector jobs are substantially lower-wage jobs than in the manufacturing sector. To the extent workers who lose their manufacturing jobs can find jobs only in service industries, they suffer declines in their standard of living. A strong manufacturing sector is vital to U.S. economic growth.

- Estimates of the cost to the U.S. economy of protection for textiles and apparel are grossly overstated. These cost estimates ignore the cost of not providing protection for the U.S. textile and apparel industry, such as unemployment compensation costs, trade adjustment assistance benefits, and welfare payments to unemployed textile and apparel workers; the loss of tax revenues derived from producers and workers; and the impact on supplying industries and local communities of lost revenues.

The retailers want the freedom to offer maximum choice of product. I do not take exception to this so long as, in the process, it does not make the domestic textile and apparel industry nonviable as is occurring in the domestic footwear industry. From the point of view of retailers themselves, it can only hurt their own health and prosperity if the vital textile and apparel industry suffers major attrition under the hammering of imports.

With respect to agriculture:

- U.S. farm policy, with its twin goals of the encouragement of adequate and stable supplies of food and fiber and the assurance to farmers that farm income and prices will be protected and stable, has been accomplished at substantial cost to the U.S. economy. We estimate this cost to have been as high as $53 billion in FY 1983. This includes $43.5 billion for Department of Agriculture farm-related programs and a USDA estimate of $9.7 billion for the PIK program.

- Farm programs cover production adjustment and price support programs, including commodity loans and purchases; production controls (including the payment-in-kind or PIK program); export promotion and credits; farmer-owned storage loans; and farmer-owned grain reserve. Other programs which directly or indirectly subsidize the agricultural sector are crop insurance; the Farmers Home Administration agricultural credit program; agricultural research and service programs; marketing programs; animal and plant health programs; special tax benefits for certain farm expenses and income; USDA food and nutrition programs; and Public Law 480.

- Under Section 22 of the Agricultural Act of 1933, imports of certain agricultural commodities are restricted by quotas or tariffs to prevent interference with price support stabilization programs operated under the auspices of USDA. Since Section 22 was enacted some 50 years ago, import controls have been imposed on at least a dozen products. Section 22 import controls currently exist on certain dairy products (including cheese), sugar, cotton, and peanuts.

- The meat import law, which dates back to 1964, permits the President to place quotas on meat imports to preserve the ratio of imports to domestic production which existed during the 1959-63 period.

There are certainly good and substantial reasons for these agricultural programs. The farmer contributes importantly to the export earnings of the country. He is an essential customer of American manufacturing industries. His labor and efficiency, with import restrictions when necessary, make it possible for the U.S. to avoid dependence on imports. But that does not give him the license to beggar his neighbor in the factories and manufacturing towns of this country.

Agricultural interests have been citing what happened with China last year, when it embargoed grain purchases from the United States in response to tightened controls on textile and apparel imports, as evidence that the United States should ease textile and apparel restraints. I would suggest that China is a fickle customer, and will only purchase U.S. agricultural products when its own domestic supply cannot meet China's needs.

Take cotton, for example. China doubled its domestic production of cotton between 1979 and 1983 and, in the process, not only stopped buying cotton from the United States, but also entered the world market as an exporter of cotton, in competition with U.S. cotton exports. For American cotton growers to rely on China as an export market would be foolhardy. Its own major domestic customer, the fiber/textile/apparel industry, has been, and will continue to be, a much more reliable and dependable customer.

As for wheat and corn, according to a report from the U.S. Embassy in Peking, China will not purchase enough wheat and corn from the United States to reach its guaranteed minimum under the bilateral agricultural agreement with China. This is primarily because of the unexpected good crop in China.

While it is not in the interest of the U.S. textile/apparel industry for China to retaliate against textile trade measures with an embargo on purchases of U.S. agricultural products, in all fairness, China has available to it other avenues for dispute settlements involving trade issues. It simply does not use them. It prefers to threaten retaliation and, in the process, uses American agriculture to fight its case.

Obviously, there is no easy solution to the problem which has developed between the textile and apparel industry, retailers, and agriculture. But, I do know that this beggar-thy-neighbor approach must be abandoned. Their interests are, I believe, more in common than in conflict.

The agricultural sector has in place huge U.S. Government subsidies and a coordinated program of import protection. We do not expect these to be abandoned, nor should they be.

The retailers have available to them a wide, although not limitless, choice of textile and apparel sources. We do not expect imports to be shut out of the U.S. market -- they will continue to grow -- nor do we expect the doors to be flung open to imports indiscriminately.

The textile and apparel industry has in place the Multifiber Arrangement, which is intended to be a program to allow orderly growth in imports. Neither agricultural interests nor the retailers should expect the textile industry to give up its only protection, as imperfect as it may be.

The textile and apparel industry will, I am sure, continue its efforts to ensure the effective administration of the Multifiber Arrangement and the bilateral agreements.

STATEMENT OF SIDNEY PULITZER, CHAIRMAN OF THE BOARD, WEMBLEY TIES, NEW ORLEANS, LA, AND CHAIRMAN, NECKWEAR ASSOCIATION OF AMERICA, NEW YORK, NY

Mr. **Pulitzer**. Thank you. I am here to make a call on behalf of a very small industry that is in difficult times and in a year or so will be in desperate times—the men's neckwear industry in the United States. My name is Sid Pulitzer. I am chairman of the board of Wembley Industries, a large manufacturer in the country, and also chairman of the board of the Neckwear Association of America, which represents the great majority of neckwear manufacturers in the United States. And we want to urge the attachment of S. 2712 to the present trade bill under consideration in the Congress today. I would never have believed that I would be here today urging a small increase in tariffs because philosophically I am a free trader. I am still a free trader. You may figure that is an unusual thing. How can you put those two philosophies together? Well, when you go for free trade or fair trade, there is supposed to be something called reciprocity. When there is no reciprocity, somebody is getting hurt, and in this case it is our country. And when we are being had, we should do something about it. Four years ago the tariffs on neckwear were put into an orderly reduction. The tariffs on foreign imports of neckwear from us were also reduced. And in that time span, the amount of imports of neckwear into the United States have exploded, but the amount of exports we have been able to produce and ship abroad and have purchased are virtually zero. We are being had. We are a very small industry. We do only about $330 million a year, so we don't have the resources to come to Washington frequently and place our case before our Government. We do represent 7,000 workers, mostly working in small establishments. The businesses are concentrated on the east and west coasts, some in the central part of the United States, and my business is in Louisiana. Noticeably different is that the men's neckwear industry has very little support in terms of tariff protection. We have no subsidies either. While the textile apparel industry as a whole has the benefit of the multifiber arrangement, the neckwear industry has virtually no protection from imports. More than half of the neckties imported are of material that is not covered by the MFA, particularly silk which accounts for the bulk of the exploding imports. Unless we can do something to offset this, we must accept the fact that the bilateral agreements we made have worked for the destruction of our industry and there has not been any reciprocity. Conditions in our industry are rapidly deteriorating as imports are increasing at an alarming rate. Between 1980 and 1983 alone, imports of neckwear increased by more than 250 percent, and this year while overall textile apparel imports increased in excess of 40 percent, neckwear imports increased by more than 100 percent. Four years ago, imports represented only 4 percent of the market share. The last few months, the rate at which the imports are coming in represents 30 percent of the market share, a doubling over last year. The amount of imports in this last year have increased from about 900,000 dozen to over 1,800,000 dozen, and our industry exports less than 5,000 dozen to foreign countries. We are being had. Unless we can do something to try and modify this and stabilize it, if this trend continues, within a year or two, a very small industry in this country will be decimated. It is an industry that does not require Government to pay any subsidies. It is an industry that pays taxes. Yet the profits in the industry have been declining. I urgently request that Senate bill 2712 be added to the trade bill under consideration in the Congress today. And we hope that another logical step can be taken shortly in the future whereby most of the fabrics used for neckwear can be added to the MFA. But this bill that we ask be added is a very moderate bill. It is supported by the neckwear manufacturers and all it represents is a return to the trade conditions that existed before the MFA tariff reductions took place. It is an increase from a duty of averaging 8 percent today to only 16 percent. I don't know if it is going to solve our problems, but it could help, and we hope that the Congress and the Senate will see some help for the neckwear industry.

Senator Danforth. Thank you very much. Excellent testimony.

[Mr. Pulitzer's prepared statement follows:]

Statement of

SIDNEY PULITZER

CHAIRMAN OF THE BOARD

WEMBLEY INDUSTRIES
NEW ORLEANS, LOUISIANA

and

CHAIRMAN
NECKWEAR ASSOCIATION OF AMERICA, INC.

Before the Subcommittee on International Trade
Committee on Finance
U.S. Senate

Hearing on the U.S. Textile Industry

September 18, 1984

SUMMARY

The neckwear industry shares many characteristics with other segments of the U.S. textile/apparel industry. The noticeable difference between the neckwear industry and other segments of the textile/apparel industry is in its lack of import protection.

While the textile/apparel industry as a whole has the benefit of the Multifiber Arrangement, the neckwear industry has virtually no protection from imports. Only a few of our products are of cotton, wool, or man-made fiber, the products covered by the MFA. More than half of the neckties imported are of materials not covered by the MFA, such as silk. And much of the remaining imports of wool or man-made fiber are from countries with which the United States does not have bilateral agreements, generally developed countries such as Italy.

This has left the necktie industry particularly vulnerable to imports. Between 1980 and 1983 alone, imports of neckties increased by more than 250 percent. While overall textile/apparel imports increased in excess of 40 percent in the first half of 1984 compared to the first half of 1983, neckwear imports increased by more than 100 percent over the same period.

Pending before this Committee is a bill (S. 2712) to return the duties on necktie imports to the levels in effect as of January 1, 1981, for a period of five years. Our industry strongly supports enactment of this temporary legislation. We believe that this temporary respite from the tremendous import growth will prevent imports from overwhelming domestic necktie producers. I urge the Committee to report out S. 2712 favorably.

The neckwear industry is also looking further into the future. We think that a logical step would be to seek coverage under the MFA for products that compete directly with those of cotton, wool and man-made fiber, namely silk and other vegetable fibers. All neckwear should logically be covered under the international textile agreement. Then, we too can share the same protection as the other segments of the textile and apparel industry.

Statement of

SIDNEY PULITZER

CHAIRMAN OF THE BOARD
WEMBLEY INDUSTRIES
NEW ORLEANS, LOUISIANA

and

CHAIRMAN
NECKWEAR ASSOCIATION OF AMERICA, INC.

Before the Subcommittee on International Trade
Committee on Finance
U.S. Senate

Hearing on the U.S. Textile Industry

September 18, 1984

My name is Sidney Pulitzer. I am Chairman of the Board of Wembley Industries, based in New Orleans, Louisiana. Wembley is one of the largest producers of neckties in the United States. I am also Chairman of the Neckwear Association of America, Inc., the trade association representing domestic manufacturers of neckwear.

The neckwear industry employs about 7,000 workers in mostly small establishments. Our businesses are concentrated in New York, which accounts for more than one-third of industry employment, California, and Louisiana, where my company is located. Substantial neckwear production also occurs in New Jersey, Missouri, North Carolina, Pennsylvania, Texas, Michigan and Massachusetts.

The neckwear industry shares many characteristics with other segments of the U.S. textile/apparel industry. The noticeable difference between the neckwear industry and other segments of the textile/apparel industry is in its lack of import protection.

While the textile/apparel industry as a whole has the benefit of the Multifiber Arrangement, the neckwear industry has virtually no protection from imports. Only a few of our products are of cotton, wool, or man-made fiber, the products covered by the MFA. More than half of the neckties imported are of materials not covered by the MFA, such as silk. And much of the remaining imports of wool or man-made fiber are from countries with which the United States does not have bilateral agreements, generally developed countries such as Italy.

This has left the necktie industry particularly vulnerable to imports. Producing neckties requires much the same skills and material requirements as does the production of other sewn-products. Production start-up costs are minimal. Virtually any country with an established apparel industry can quickly become a producer and exporter of neckties.

Conditions in our industry are rapidly deteriorating as imports increase at an alarming rate. Between 1980 and 1983 alone, imports of neckties increased by more than 250 percent. While overall textile/apparel imports increased in excess of 40 percent in the first half of 1984 compared to the first half of 1983, neckwear imports increased by more than 100 percent over the same period. With the huge increases thus far in 1984, imports of neckties in January-June were already 86 percent of the import level in all of 1983.

This tremendous surge in imports can be directly attributed to the tariff cuts negotiated in the Multifiber Trade Negotiations. Tariffs on neckties were cut 20 to 50 percent. The tariff on silk neckties, the product with the largest import volume, was cut 50 percent.

This tremendous growth in imports has caused a substantial loss in market share held by U.S. producers. The ratio of imports to domestic shipments rose steadily and rapidly from an estimated 4.3 percent in 1980 to 14.6 percent in 1983. As a percent of the U.S. market, imports grew from an estimated 4.2 percent in 1980 to 13.0 percent in 1983. This year, we are projecting substantial growth in domestic consumption of neckties. We had expected domestic production to share in at least some of that growth. But, earlier predictions that domestic necktie shipments would grow by 15 percent in 1984 (compared to import growth in excess of 100 percent) have recently been proven far too optimistic. In the last two months any improvements in domestic necktie production have come to a standstill, and it is unlikely that the industry will meet this earlier optimistic prediction. In any event, imports as a percent of domestic shipments are expected to approach 30 percent in 1984, or about double the 15 percent import-to-domestic shipment ratio in 1983.

The neckwear industry has available to it few options to fight the import problem. Some have suggested that the industry file an "escape clause" petition to get relief from imports by demonstrating that the industry has been seriously injured by increasing imports. While to me this injury is apparent, there are some very valid reasons why we are reluctant to pursue this route. It would take eight months between the time we would file such a case and a final decision were to be reached, during which time imports, even at current rates, would be swamping our market. It simply takes too long to get needed action in the face of rapidly increasing imports. Further, the decision in June by the International Trade Commission that the nonrubber footwear industry was not injured by imports leaves us concerned about what results would be reached in the case of neckwear. Finally, even if we were to win a case before the ITC, we have little assurance that the President would agree to provide import relief. What happened with the much larger copper industry is evidence of this.

The neckwear industry is trying another route as well. Pending before this Committee is a bill (S. 2712) to return the duties on necktie imports to the levels in effect as of January 1, 1981, for a period of five years. Our industry strongly supports enactment of this temporary legislation. We believe that this temporary respite from the tremendous import growth will prevent imports from overwhelming domestic necktie producers. I urge the Committee to report out S. 2712 favorably.

We would certainly like to see this legislation pass, but the neckwear industry is also looking further into the future. We have been asking ourselves what else can be done. We think that a logical step would be to seek coverage under the MFA for products that compete directly with those of cotton, wool and man-made fiber, namely silk and other vegetable fibers. All neckwear should logically be covered under the international textile agreement. Then, we too can share the same protection as the other segments of the textile and apparel industry.

Beyond this suggestion that perhaps neckwear should be covered more completely under the MFA, I would also note that the neckwear industry has a stake in seeing that the MFA is effective. While there have been no "calls" relating to wool or man-made fiber neckties under the current bilateral agreements, for the first time we are seeing more and more imports from the developing countries. Unless action can be taken, when appropriate, against rapidly increasing imports, the intent of the MFA is easily undermined.

I urge your support for S. 2712 and for more effective implementation of the Multifiber Arrangment.

Senator DANFORTH. And excellent testimony from all three of you from different perspectives. I don't have any questions for you, but I appreciate your fine testimony and also your patience in waiting for 2½ hours of the hearing before you got your time to testify. Thank you very much.

That concludes the hearing.

[Whereupon, at 12:03 p.m., the hearing was concluded.]

[The following communications were made a part of the hearing record:]

Statement by
SENATOR NANCY LANDON KASSEBAUM
before the
Subcommittee on International Trade
September 18, 1984

I appreciate the efforts of the members of the International Trade Subcommittee. This oversight hearing on the state of the United States textile industry and existing international trading agreements will highlight many of the tensions faced by the United States today in the international marketplace. I hope it also will focus attention on the interdependence of various sectors of the U.S. economy and on the effects that restrictions on free trade in one sector can have on other sectors.

The United States has taken significant steps to protect the domestic textile industry. Import quotas have been established, and bilateral agreements assist in limiting the impact of textile imports on domestic textile interests. In addition, Congress has been active in strengthening textile labeling regulations to assure that U.S. consumers have the option to choose intelligently between domestic and imported textile products.

The United States is also a party to multilateral agreements which attempt to provide an orderly system of international trade in textiles. The Multi-Fiber Agreement and the General Agreement on Tariffs and Trade are important multinational efforts to stabilize world textile trade. It is important that the United States live up to its responsibilities under these carefully negotiated agreements. Because of our dominant role in international trade, the United States must continue to prove itself as a reliable and trustworthy trading partner.

The problems in the textile industry should be addressed. Indeed, as I noted above, Congress and this administration have listened to the needs of the domestic textile industry and have responded in several important ways. We should not, however, sacrifice other, equally important American trading interests in a too narrow effort to shore up domestic textile producers and processors.

In August, the Customs Service issued proposed regulations dramatically altering customary international and U.S. practice for defining the "country of origin" of textile products. Although these regulations were labeled "proposals," they became effective on September 7, 1984, nearly one month before the public comment period ended. This is an unusual method of promulgating federal regulations and raised serious questions about the utility of such a hasty adoption of substantive rules. I share the concern of many of my colleagues that regulations which implement significant, dramatic changes in Customs Service policies, and which can drastically affect the entire picture of U.S. international trade, deserve a more thorough review. Efforts to enforce customs policies should be comprehensive and should be developed through open debate and comment.

Certainly, when regulatory action by the executive branch will have a serious impact on the broad international trading interests of the United States, this subcommittee, and indeed the entire Congress, should have the opportunity to review and evaluate that action.

The modifications effective September 7 will alter substantially the United States' policies on imports of textile products, effectively negating long-established customs policies and undermining multilateral and bilateral agreements with our trading partners. Short-sighted regulatory efforts to minimize textile imports, even if in the name of enforcing import quotas, will not enhance the status of the United States as a reliable trading partner and will not promote the best interests of the domestic textile industry. Recent discussions within the Textiles Committee of the GATT indicate that our trading partners are concerned about unilateral actions by the United States.

I believe our trade policy should be comprehensive and integrated. Our charge, as a Congress, is to develop a trade policy for the entire United States, rather than to fashion piecemeal remedies which play one economic sector against another. Agriculture is an export-dependent sector. It is a sector still hard-hit by the recent recession and by vacillating U.S. trade policies. The agricultural sector does not need, and possibly cannot survive, further disruption of its export markets. Textile-exporting countries offer largely untapped markets for American farm and timber products. Those markets will remain untapped, America's farmers will continue to suffer, and our trade imbalance will grow if the tide of protectionism rises on a sector-by-sector basis. This hearing will, I hope, underscore that danger and will emphasize again how unfortunate it would be if we were to once more sacrifice America's potential agricultural export markets for short-term domestic gains.

I urge the subcommittee to consider seriously the impact of these newest textile-related regulations in light of our multilateral and bilateral agreements; the critical need to maintain export markets for America's farmers, manufacturing, and high technology industries; and the potential for retaliation by our trading partners. I joined 15 of my colleagues in requesting that the President delay the effective date of the Customs Service's regulations, and I renew that request before this subcommittee today. If problems exist, we should address them in a comprehensive manner after thorough public debate, especially when one sector's benefits may rebound to the detriment of another vital segment of the American economy.

I thank the subcommittee for the opportunity to submit this statement.

SENATOR STEVE SYMMS - SENATE FINANCE COMMITTEE - SEPTEMBER 18, 1984

Good morning, Mr. Chairman. I would like to thank you and the other Members of the Committee for holding these hearings.

While the hearings being held today are for the ostensible purpose of airing the problems of the American textile industry, I believe that it would be an opportune time for us to review the impact of the "country of origin" regulations recently imposed by the U.S. Customs Service.

As a result of special interest lobbying efforts, the U.S. Customs Service proposed on August 3rd that the "country of origin" rules for textile imports be redefined. This modification is beginning to cause serious disruption of U.S. textile imports and risks foreign retaliation against U.S. agricultural and forest product exports, particularly to the Far East.

Although ostensibly designed to combat fraud, the proposed regulations will also affect a significant number of legitimate business transactions including many existing orders for Christmas merchandise. Changing the country of origin requirements will result in the embargo of shipments from countries whose quotas have already been filled or committed for the year. It is estimated that hundreds of millions of dollars of textile products will be affected.

This change is having a dramatic impact on our relations with important trading partners whose normal patterns of exports to this country will be abruptly and radically altered. When retaliation for U.S. trade actions has occurred in the past, American farmers have had to bear a heavy burden. Witness last year's controversy over textile imports from China. The resulting halt in Chinese purchases of U.S. wheat alone caused a loss in export earnings of over $500 million. The potential loss in revenue that is likely to result from these regulations -- which will affect many countries -- will be even greater.

Of the greatest concern to me is the manner in which the regulations were put in place. No opportunity was provided for groups who are affected to offer comments on the impact of the new rules. Also, despite the far-reaching effects of the proposed regulations, no economic impact analysis was prepared.

If any analysis had been done, it would have been clear that the new regulations complicate the textile trade and probably will restrict further the supply of foreign textiles available to American consumers, for the short term. However, while the effect of these regulations is to reduce the amount of imported textile products for the short-term, the long-term impact will actually harm the domestic textile industry because our trading partners producing textile products will simply build integrated operations in each of their respective countries and the overall capacity, abroad, will be greater -- therefore, giving the American textile industry even more competition.

In my opinion, the new restrictions raise serious administrative, economic and political questions, and furthermore, seem to violate international treaties signed by the U.S. It is for this reason that Hong Kong, Colombia, El Salvador, Indonesia, Jamaica, Malaysia, Mexico, Pakistan, the Phillippines, South Korea, the People's Republic of China, and other countries have lodged diplomatic protests against the U.S.

The American textile industry does not need protection at the expense of consumers and every other exporting industry in the United States.

HONORABLE VIRGINIA SMITH
Statement before the Senate Finance
Subcommittee on International Trade

Mr. Chairman and members of the committee, I certainly appreciate this opportunity to address the timely issue of US textile trade policy and its overall effect on US trade, particularly agricultural exports.

My comments today relate specifically to the new country-of-origin textile import interim regualtions which took effect on September 7. My position on this issue, however, extends beyond this current dispute to US trade practices in general.

As a result of President Reagan's Executive Order 12475, the US Customs Service issued a new interpretation of international rules governing textile imports which redefine what constitutes the "country of origin" for textile products bound for the United States.

These new regulations are objectionable for several reasons. First of all, they represent a retreat to the dark days of protectionism. Secondly, such action once again places an unfair burden on the farmers of this nation. In addition, the overall impact of this decision on the US economy is clearly negative, and if not reversed, will adversely affect employment, consumer prices, tax revenues, government expenditures, and the balance of trade. Finally, these new regulations appear to violate the 1973 Multi-Fiber Arrangement on Textiles.

As world trade becomes increasingly competitive, the internal pressure for protectionism is building steadily. Obviously American business faces some unfair trade practices in the world today. These barriers must be removed, however, not matched tit for tat.

To retreat into the dark isolation of protectionism is to throw in the towel economically. America's economic greatness developed as a result of our competitivness and the efficiency and ingenuity it produced. An expanding economy cannot be maintained long when bound by the chains of protectionism.

This country and this administration must take a firm stand now or face a period of extended and painful trade disruption in the years ahead.

As with the Carter-Mondale grain embargo, the consequences of the new country-of-origin regulations will be an unfair burden on American farmers. History shows that our trading partners will not stand quietly by as the United States restricts their access to our markets. Retaliation is nearly guaranteed, and the brunt of it will fall on agriculture.

One of the nations affected most by the new textile regulations will be the People's Republic of China. In 1980, 1981, and again in 1982, the PRC was the largest importer of US wheat. Under a 1980 Long Term Agreement, China has contributed $8.31 billion to US export receipts from wheat and corn in the last four and one half years.

China has demonstrated in the past that it will link restrictions on textile imports to its US grain purchases. As I pointed out toPresident Reagan in a letter on August 9; last year, in a dispute over a US-China textile treaty involving $50 million in Chinese textile products, the PRC retaliated by shifting half a billion dollars worth of orders for US wheat and other agricultural products to Canada, France, Argentina, Australia, and other nations.

Prior to the announcement of these new regualtions, Chinese officials stated numerous times their intention to fulfill the agreement for grain purchases this year. The Chinese trade minister promised Agriculture Secretary John Block last May that China would also makeup for the shortfall in purchases last year. If now, as a result of this unilateral protectionist action on the part of the United States, China chooses not to abide by its agreement, $500 million in grain sales will be lost. Chinese Ambassador Zhang Wenjin, in a letter to US Trade Representative William Brock, has stated that "The United States Government will bear the responsibility for the consequences (of our action)." It would be more correct to say the farmers of America will face the "consequences" of this policy.

The last time such a disput occurred, and that was just last year, our wheat sales to China dropped 64%. Is our memory so short that we cannot learn from the mistakes of the past? The farmers of this country can ill afford the loss of this market.

Just as we should expect the People's Republic of China to keep its agreements to the US, the United States should also keep its word.

The new country-of-origin restrictions appear to violate the Multi-Fiber Arrangement of 1973. This arrangenment governs international textile trade and requires members to hold consultations prior to policy changes. In making these regulations, however, the US acted unilaterally.

On September 4 in Geneva, Switzerland, Canada, Japan, the Common Market, and 28 developing countries demanded the withdrawl of the regulations. This action occurred at an emergency meeting of the Textile Committee of the General Agreement on Tariffs and Trade. Sergio Delgado, representing Mexico, stated "The US has violated assurances given in the Multi-Fiber Arrangement on textiles."

It is my belief that textile policy should be set through negotiations, not through unilateral actions.

Finally, the overall effect of these new regualtions on the US economy should not be overlooked. In 1981 approximately 57,510 US jobs relied on the US-China wheat trade alone. This does not take into account the jobs created by grain exports to the many other countries affected by the new rules. It is also estimated that each dollar of agricultural exports stimulates another $1.23 of output from the the US economy. So, in addition to the direct benefits of the Chinese trade, around $2 billion of economic activity outside the farm sector depends on Chinese grain sales.

Several other economic consequences should also be considered. Without the Chinese grain sales, tax revenue losses and increased federal social expenditures would total over $1 billion. The new regulations themselves could cost consumers up to 17% more for some clothing items according to one major retailer. Import curbs will cost American consumers $4.4 billion this year according to the Retail Industry Trade Action Coalition.

These figures point clearly to the fact that these new regulations are not in the national best interest, and would in fact harm our recovering economy.

In light of the burden the new country-of-origin textile import regualtions place on American farmers, the protectionist tilt they represent, their violation of the Multi-Fiber Arrangement, and the overall adverse economic impact they will have on the US economy, I urge you to join me in calling for the revocation or postponement of these regulations.

Again, I thank you, Mr. Chairman, and members of the committee for providing this opportunity to share these views with you today.

ANTONIO B. WON PAT, M.C.
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SUBCOMMITTEES:
CHAIRMAN, INSULAR AFFAIRS
PUBLIC LANDS AND NATIONAL PARKS

September 20, 1984

The Honorable John C. Danforth
Chairman
Subcommittee on International Trade
Senate Committee on Finance
SD219
Washington, D.C. 20510

Dear Mr. Chairman:

Thank you for the opportunity to make a statement about the interim rules-of-origin regulations issued August 3, 1984 pursuant to Executive Order 12475. I think this matter is relevant to the subject of your Subcommittee's hearing earlier this week on the state of the U.S. Textile Industry.

The territory of Guam, the Virgin Islands and American Samoa have special economic problems and needs for which General Headnote 3(a), TSUS, was established thirty years ago. The primary intent of that statute was to boost the local economies of the insular areas and provide additional job opportunities to local territorial residents. Recently the Commonwealth of the Northern Mariana Islands (CNMI), was included under Headnote 3(a) by the terms of the Commonwealth Covenant (PL 94-241).

I am greatly concerned about the affect of the interim regulations on the territories, particularly on existing textile businesses and the relatively substantial employment and revenues they generate. These companies contend that the regulations will force them to discontinue operations in the territories.

Further, the regulations appear to contravene the intent, and perhaps the letter, of the Headnote 3(a). That statute has been a principal element of the bipartisan national policy of developing territorial economies for three decades by giving the insular areas a trade advantage over foreign jurisdictions. As recently as the 1982 Caribbean Basin Initiative legislation (PL 97-357), the Congress and the current Administration reaffirmed this by including a provision which raised the allowable foreign content in certain Headnote 3(a) products to ensure the U.S. territories would not be disadvantaged by the CBI trade incentives.

In my contacts with members of the Committee for Implementation of Textile Agreements (CITA) and their Department Secretaries; the Secretary of the Interior, whose Department has responsibility for federal matters affecting the U.S. insular areas through its Office of Territorial and International Affairs; and Members of the House and Senate, I have tried to highlight the unique position of the American insular areas, in relation to both the United States and this current effort to stop textile import quota circumvention by foreign countries. Headnote 3(a) is a statutory federal effort to help American areas. If any change is to be made in the purpose and operation of the Headnote, I think this should be done through legislative, not regulatory, action.

For your information, I am enclosing copies of letters written by others of our colleagues to members of Administration about the territories and the regulations.

Guam currently has one textile producer, Sigallo-Pac, Ltd. In just three years' time, this company has grown sufficiently to employ 275 workers, have an annual payroll of approximately $2.5 million, and be one of the major users of shipping out of Guam. These statistics must be considered in the context of Guam's small size: an island 32 miles long by 8 miles wide (about three times the size of Manhattan); 9,500 miles from Washington, D.C.; a population of only 110,000 (plus 35,000 military and dependents stationed at the island military bases); a workforce of about 35,000; an economy principally dependent on the U.S. military presence or the tourism industry.

Mr. Chairman, I understand the need to respond to serious concerns about textile quota abuses worldwide. But the U.S. insular areas are American communities which must receive their due consideration. The new rules-of-origin regulations should not be applied to the territories.

Please let me know if I can provide additional information to you and the Subcommittee.

Sincerely yours,

ANTONIO B. WON PAT
Member of Congress

Enclosures

Congress of the United States
House of Representatives
Washington, D.C. 20515

September 4, 1984

Honorable Donald T. Regan
Secretary
Department of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

As the Chairman and members of the Congressional Territorial Caucus, we ask that you intervene on behalf of American Samoa, Guam, the Northern Mariana Islands, and the Virgin Islands with regard to the interim effect of the textile regulations issued in response to Executive Order #12475. We are concerned that these regulations, scheduled to go into effect on September 7, 1984, compromise the intent of General Headnote 3(a) of the U.S. Tariff Schedules, which is designed to provide a special incentive for economic development in the United States territories.

Headnote 3(a), TSUS, was enacted to promote improvement in the local economies of the U.S. territories and to create jobs for their residents. The Congress and successive administrations have reaffirmed this intent as a means of moving the territories toward economic self-sufficiency. The Reagan administration has been part of this effort, as evidenced in the Caribbean Basin Initiative (PL 97-357), which included a provision raising the allowable foreign content in certain Headnote 3(a) products to ensure the U.S. territories would not be disadvantaged by the CBI trade incentives.

The rules of origin tests contained the new regulations nullify the trade preferences created for the territories under Headnote 3(a). In an attempt to address concerns about textile import quota violations, the interim regulations fail completely to distinguish the special commitment to the needs and concerns of the American insular areas.

We ask that the territories be exempted from the regulations pending review of their impact on the territorial economies and on this Administration's policy of promoting self-sufficiency in the insular areas. The territories are U.S. entities which the federal government is pledged to protect and support. To the extent we are inhibited in our abilities to stand on our own, a liability will be created which will suggest the need for federal subsidy.

Given the imminent effect of the textile regulations this week, we submit this request for your immediate attention.

Sincerely,

FOFO I.F. SUNIA
Chairman
Delegate, American Samoa

ANTONIO B. WON PAT
Delegate, Guam

RON DE LUGO
Delegate, Virgin Islands

BALTASAR CORRADA
Resident Commissioner, Puerto Rico

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LEE McELVAIN
GENERAL COUNSEL

TIMOTHY W. GLIDDEN
REPUBLICAN COUNSEL

September 5, 1984

Honorable Donald T. Regan
Secretary
Department of Treasury
Washington, D.C. 20220

Dear Secretary Regan

We are most concerned about the implications for the territories of the United States of interim regulations on textile imports issued pursuant to Executive Order 12475 and which are scheduled to go into effect September 7, 1984 and October 31, 1984.

An immediate concern is the impact that the regulations will have on existing territorial textile businesses and the relatively substantial employment and revenues that they generate. These companies contend that the regulations will make it impossible for them to continue to operate.

Because of the federal responsibility for the territories, such an impact could have consequences for the federal government in addition to those which would be created for the economies and governments of the territories.

Our more fundamental concern is that the regulations appear to contravene the intent, and perhaps the letter, of the General Headnote 3(a) of the Tariff Schedules. The possiblity that the standards contained in these regulations will be used to guide policy in the future concerning the importation of other articles deepens this concern.

As you know, Headnote 3(a) has been a principal element of the bipartisan national policy of developing territorial economies for three decades. It was intended to give our territories, which are outside the U.S. customs zone, a statutory trade advantage over foreign jurisdictions. Such an advantage is essential if the territories, as U.S. islands with U.S. costs of doing business, are to compete with their regional neighbors.

The regulations would eliminate the Headnote 3(a) advantage on textile products which has been a primary incentive for territorial production. They would do this by substituting new rules of origin tests for those currently applied to territorial products under Headnote 3(a). They would do this irrespective of the extent to which the territories are a factor in existing textile quota abuse.

We understand the need to respond to serious concerns about the abuse of textile quota restrictions worldwide. But we do not believe that new standards on territorial imports should be imposed until the potential impact on the territories, the implications for the continued viability of Headnote 3(a), and the relationship of territorial production to quota abuse have been evaluated.

Thus, we request that these regulations not be applied to the territories until Congress and the administration have had an opportunity to consider these questions. As leaders of the committee of the House with jurisdiction over legislation affecting the territories, we will commit to an expeditious review of these questions with appropriate administration officials.

Sincerely,

Mo Udall
MORRIS K. UDALL
Chairman
Committee on Interior and
Insular Affairs

MANUEL LUJAN, Jr.
Ranking Republican
Committee on Interior and
Insular Affairs

ANTONIO B. WON PAT
Chairman
Subcommittee on Insular Affairs

ROBERT J. LAGOMARSINO
Ranking Republican
Subcommittee on Insular Affairs

Identical letter sent 9/5/84 to: Secretary of Commerce Malcolm Baldridge

Secretary of the Interior
William P. Clark

U.S. Trade Representative
William E. Brock

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CHAIRMAN, INSULAR AFFAIRS
PUBLIC LANDS AND NATIONAL PARKS

September 24, 1984

The Honorable John C. Danforth
Chairman
Subcommittee on International Trade
Senate Committee on Finance
SD219
Washington, D.C. 20510

Dear Mr. Chairman:

Reference my September 20, 1984 letter concerning the interim textile rules-of-origin regulations which adversely affect my District, the Territory of Guam, and the other U.S. Headnote 3(a) areas.

Enclosed are copies of two additional letters and addressing this issue, which I would like attached to my earlier correspondence.

Sincerely yours,

Tony

ANTONIO B. WON PAT
Member of Congress

Enclosures

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United States Senate
COMMITTEE ON
ENERGY AND NATURAL RESOURCES
WASHINGTON, D.C. 20510

September 6, 1984

The Honorable William P. Clark
Secretary
Department of the Interior
18th and C Streets, N.W.
Washington, D.C. 20240

Dear Mr. Secretary:

Enclosed is a copy of a letter which the Committee received from the Resident Representative of the Commonwealth of the Northern Mariana Islands concerning interim textile regulations issued by the Administration. We have received similar expressions of concern from Guam, American Samoa, and the Virgin Islands.

While the level of imports from the territories may be insignificant in the overall discussion of textile imports, that does not mean that special consideration should not be afforded the territories. On the contrary, both the Administration and the Congress have sought to broaden the economic base of the territories and decrease their dependence on the public sector. The territories are in a difficult situation at present in attracting new industry, and we are concerned that the issuance of this regulation may have consequences beyond the few textile manufacturers by indicating to any potential investor that they should not rely on Headnote 3A nor expect a hearing or right of appeal.

We would appreciate it if you would provide the Committee with an explanation of the reasons for the inclusion of the territories under the regulation and what analysis of the impact on the territorial economies was undertaken prior to the decision. In light of the responsibility of the Secretary of the Interior for the territories, we would also appreciate an explanation of what role you had in this decision, how this regulation encourages the development of the private sector in the territories, and what the impact of excluding the territories would have had on the achievement of the objective of the regulations.

Sincerely yours,

J. Bennett Johnston
J. Bennett Johnston
Ranking Minority Member

James A. McClure
James A. McClure
Chairman

JAM: jb/nm
Enclosure

Office of the Resident Representative to the United States
Commonwealth of the Northern Mariana Islands

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August 23, 1984

Honorable James A. McClure
Chairman
Committee on Energy and Natural Resources
United States Senate
SD-358 Dirksen Office Building
Washington, D.C. 20510

Dear Senator McClure:

This letter is to register my grave concern over interim textile regulations 49 Fed. Reg. 31248 (Aug. 3, 1984) recently issued by the Secretary of the Treasury (U. S. Customs Service) pursuant to the authority of the Agriculture Act of 1956 as amended (USC 1854). If allowed to take effect as scheduled on September 7, 1984, these regulations will deal a crippling blow to the developing economy of our small islands. I solicit your assistance in finding a legislative remedy to protect the fledgling garment manufacturing industry in the Northern Mariana Islands.

In the years since the start of self-government under our Covenant with the United States, the Congress and federal officials have been exhorting us to wean ourselves away from the government-dominated economy left to us by the Trust Territory and establish permanent, productive, taxpaying investment and employment in the private sector. Our first response was to accept a major increase in tourism, at no small risk to our culture and environment, and this has been quite successful. It is not sound, however, to rely on a single industry, especially one so volatile as tourism, as a basis for economic stability.

With this in mind, the Commonwealth of the Northern Mariana Islands (CNMI) recently took the second major step to develop its private sector economy. In order to diversify our economy, increase our tax base, and provide new types of jobs for which our people could be trained, we actively sought investment from outside the Commonwealth in industries which would be entitled to enter their CNMI products into the customs territory of the United States without duty, as provided under Headnote 3(a) of the Tariff Schedule of the United States. This is guaranteed to us by Section 603(c) of the Covenant. In fact, we have gone out of our way to make the CNMI attractive to export manufacturers through tax and other incentives.

In response to our efforts, and in reliance on the headnote and on rulings of the Customs Service, three textile companies have begun, and others will shortly begin manufacturing operations on Saipan. These are generally American-owned, with some minority foreign participation. Already, the new industry has created about 300 new taxpaying jobs in the private sector. Of these, some 70 are already being filled by newly-trained local residents, and local employment is expected to reach 100 before the end of the year. We expect this upward trend to continue, both in absolute terms and in proportion to our growing industrial workforce. The new plants have already paid over $100,000 into the Commonwealth Treasury, and current projections indicate that the companies should generate $500,000 in revenues annually to the Commonwealth at current levels.

The new regulations would nip this new industry in the bud. The regulations change the definition of "substantial transformation" to make it far more restrictive. In order to be considered substantially transformed, and thus a product of the Northern Mariana Islands, the article must have undergone a process so profound that it is considered to be a new and different article of commerce with a new use distinct from the original material.

The factories in Saipan are not fraudulently sewing labels on already assembled garments, or doing pre-shrink washing. They actually sew the garments together and create a whole which is greater than the sum of its parts. To my knowledge all of these operations are in full compliance with currently applicable law and regulations. Regardless, the new regulations will mean that these garments may no longer carry the previously-approved label identifying it as a "Product of the Commonwealth of the Northern Mariana Islands (USA)" and may not lawfully enter the United States.

One irony of the situation is that these regulations were issued pursuant to "the foreign affairs function" of the United States and were therefore issued without the normal kinds of notice and due process afforded by the Administrative Procedures Act (APA) 5 USC 553. When the people of the Northern Mariana Islands approved our Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (P.L. 94-241) they expected to be treated as members of the political family of the United States, not lumped in with foreign nations where matters of economic development and trade are concerned. Section 603(a) of the Covenant requires, according to the Section by Section Analysis, that "the United States is obligated to seek appropriate waivers or modifications of its international obligations", including specifically the general agreement on tariffs and trade (GATT), when those obligations impede the entry of CNMI products into the United States.

I believe that these regulations are contrary to the United States commitments made in our Covenant and in the United Nations Trusteeship Agreement to promote economic development in the Northern Mariana Islands. I also question whether they are a legitimate exercise of the foreign affairs powers delegated by Congress where the Northern Mariana Islands is concerned. In light of the fact that the Department of the Interior is without a voice on the Committee for Implementation of Textile Agreements, I feel that we must look to the Congress for assistance in this matter. If we are to believe the Department of Commerce that the foreign affairs function of the United States is involved, then we are without the right to petition the agency for amendment or repeal of these rules under the APA. 5 USC 553(e).

I am informed that the Senate's Committee on Finance has a bill before it that might be an appropriate measure to legislate more equitable treatment for the Northern Mariana Islands and the territories and insular possessions in H.R. 3398. I believe that all products of the Northern Mariana Islands which are eligible for import into the United States pursuant to 19 USC 1202 General Headnote 3(a) should be exempted from the "country of origin" restrictions of the new customs regulations. It would mean that products of the Northern Mariana Islands which contain foreign materials of a value of less than 50% of their total value could continue to bear the label "Product of the Commonwealth of the Northern Mariana Islands (USA)" and enter the United States market.

Enclosed is draft language to accomplish this purpose. The draft is in the form of an amendment to H.R. 3398; however, I would like to see this subject considered by the Committee on Ways and Means as well. I understand that the Committee will meet after the House of Representatives reconvenes in September to consider a broad range of trade measures, including textile quotas. While I realize that our difficulties are relatively minor, the new customs regulations will increase the deficit and I hope that the Committee will include this item on its agenda.

Please let me know if I may provide additional information or assistance on this subject.

Respectfully yours,

Froilan C. Tenorio
Resident Representative

Enclosure

Proposed Amendment to H.R. 3398. Treatment of the Northern Mariana Islands and other territories, possession and insular areas of the United States in relation to agreements limiting imports.

Section 204 of the Agriculture Act of May 28, 1956, 70 Stat. 200, as amended by Public Law 87-488, 76 Stat. 104 is further amended by designating the existing section as subsection (a) of section 204 and adding a new subsection (b) to read as follows:

(b) For the purposes of subsection (a) of this section the Commonwealth of the Northern Mariana Islands and the territories, possessions and insular areas of the United States, not including the District of Columbia and the Commonwealth of Puerto Rico, shall be considered to be "foreign governments" or "countries". Agricultural commodities or products manufactured therefrom or textiles or textile products which are grown, manufactured or produced in the Commonwealth of the Northern Mariana Islands and territories, possessions and insular areas of the United States shall enter the United States or be withdrawn from warehouse as follows:

(1) All such articles which do not contain foreign materials to the value of more than 50 percent of their total value coming to the customs territory of the United States directly from the Commonwealth of the Northern Mariana Islands and the territories, possessions and insular areas, and

all articles previously imported into the customs territory of the United States with payment of all applicable duties and taxes imposed upon or by reason of importation which were shipped from the United States, without remission, refund, or drawback of such duties or taxes, directly to the Commonwealth of the Northern Mariana Islands or the territory, possession and insular area from which they are being returned by direct shipment, shall be allowed to enter.

(2) In determining whether an article produced or manufactured in the Commonwealth of the territories, possessions or insular areas of the United States contains foreign materials to the value of 50 percent, no material shall be considered foreign which, at the time such article is entered, may be imported into the customs territory of the United States from a foreign country, other than Cuba or the Republic of the Philippines, and entered free of duty.

(3) All such articles which do contain foreign materials to a value of more than 50 percent of their total value shall be considered to be the product of the foreign country which contributed the largest part of its foreign materials and regulated pursuant to the provisions of subsection (a) of this section.

LOWELL P. WEICKER, JR.
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September 5, 1984

The Honorable William Clark
Secretary of the Interior
C Street & 18th Street
Washington, D.C. 20240

Dear Mr. Secretary:

Headnote 3(a) of the Tariff Schedules of the United States is an important aspect of the nation's policy of encouraging economic independence in the territories. However, textile regulations recently published by the Treasury Department in response to Executive Order 12475, and due to become effective September 7, 1984, would supersede Headnote 3(a) and force the closure of many important territorial textile industries. An additional concern is that these regulations will be used as guidelines for future regulations affecting other articles produced in the territories.

Because these regulations were published using foreign policy authority, domestic industry notification was not made and public comments were not invited or reviewed. Apparently, the impact of these regulations on the territorial economies was not given careful consideration. I ask that you exempt the territories from these interim regulations pending review of their impact on the territorial economies. I understand the need to respond to the abuse of textile quota restrictions which was the intent of these regulations. However, the territories are not a factor in said abuses.

We are pledged to protect and support the territories of the United States. If we inhibit their developments we create a dependency on federal subsidies. Considering the impact of these regulations, I trust that you will give immediate consideration to an exemption for the territories.

Thank you for your kind attention to this matter.

Sincerely,

Lowell Weicker, Jr.
United States Senator

LW/as

STATEMENT OF THE PROGRAMME OF COOPERATION AMONG DEVELOPING COUNTRIES, EXPORTERS OF TEXTILES AND CLOTHING TO THE SUB-COMMITTEE ON INTERNATIONAL TRADE OF THE SENATE COMMITTEE ON FINANCE

1. The Programme of Cooperation among Developing Countries, Exporters of Textiles and Clothing 1/ wishes to refer to the hearing recently conducted by the Sub-Committee on International Trade of the Committee on Finance on 18 September 1984, on the state of the US textile industry under the trade agreements programme and would like to submit the following statement for inclusion in the printed record of the hearing.

2. Trade in textiles and clothing has been subject to a special restrictive regime for over 20 years. At present, such trade is governed by the Multifibre Arrangement (MFA), negotiated in 1973, renewed twice (in 1977 and 1981) and the second renewal being valid up to 31 July 1986. This Arrangement allows importing countries to impose quantitative restrictions on imports of particular textiles and clothing products from particular sources, i.e. developing exporting countries or, in some cases, Eastern European countries. It constitutes a major derogation from the rules and principles upon which the prevailing multilateral system had been built, i.e. unconditional most-favoured nation treatment, trade based on comparative advantage and preferential treatment in favour of developing countries' trade.

1/ Programme members are: Argentina, Bangladesh, Brazil, China, Colombia, Dominican Republic, Egypt, El Salvador, Philippines, Guatemala, Hong Kong, India, Indonesia, Jamaica, Macau, Malaysia, Maldives, Mexico, Pakistan, Peru, the Republic of Korea, Romania, Singapore, Sri Lanka, Thailand, Turkey, Uruguay, and Yugoslavia.

3. The crucial importance of textiles and clothing for the development of the developing countries and the growth of the world economy has long been recognized. In all of the lower-income countries that have succeeded in their efforts at export-oriented industrialization, textiles and clothing have initially played a predominant role. The importance of these industries for adding value to local raw materials, for absorbing surplus labour and for obtaining foreign exchange, has been demonstrated in a wide range of developing countries, differing in size, climate, geographical location, level of development and system of economic organization. These countries continue to depend on exports of textiles and clothing to provide momentum for their efforts to industrialize and to achieve faster rates of economic growth.

4. In an inter-dependent world economy, export earnings from textiles and clothing serve as a vital source of foreign exchange that enable developing countries to import from developed countries the capital goods necessary for their further industrialization. It should be noted, in this context, that the developing countries are important buyers of manufactures from developed countries; their imports of "other manufactures" (among which machinery is the most important category) increased from $ 25 billion in 1973 to over $ 100 billion in 1980. This growth took place in a context where the exports of textiles and clothing by developing to developed countries rose from $ 5 billion to some $ 15 billion. The export earnings can also contribute towards alleviating the current difficulties being experienced by many textile exporting countries in servicing their external debt.

5. Whilst it is obvious that both the volume of international trade and the health of the international financial system stand to gain from buoyancy in the textile and clothing industries of developing countries, the multilateral textile regime has consistently expanded in product and country coverage and intensified in the restrictive and discriminatory aspects, regardless of the prevailing situation of the world economy. At present, virtually all of the textile and clothing imports from developing countries, including those that supply less than one-tenth of one per cent of developed country markets and others fall into the category of the poorest countries of the world, are subject to a vast and intricate network of restrictions. Such developments have inevitably placed the credibility of the multilateral trading system, as a whole, seriously in question.

6. Recent developments in the international trade in textiles witnessed a sharper deterioration in the adherence of importing countries to the principles enunciated in the MFA and the 1981 Protocol of Extension. One of the most serious developments in this regard was the application by the Government of the United States of additional criteria establishing "presumption of market disruption or threat thereof", which resulted in restraints being applied on the basis of a unilaterally determined automatic trigger mechanism. The mechanism was announced on 16 December 1983.

7. It is the view of the developing countries, exporters of textiles and clothing, that the above measures are in violation of commitments undertaken during the GATT Ministerial Meeting of November 1982, to resist protectionist pressures, to give the fullest consideration to the objectives of trade liberalization and expansion, to pursue measures aimed at liberalization of

trade in textiles and clothing and to adhere strictly to the rules of the MFA. They have also caused great uncertainty and undue hardship for trade of developing countries, especially for small suppliers and new entrants, on both a short and long-term basis. Any efforts to expand trade are likely to be frustrated and discouraged in view of the looming calls. This is clearly against the spirit and basic objectives of the MFA, particularly Article 6, and paragraph 12 of the 1981 Protocol of Extension which specifically provide for special and differential treatment for new entrants, small suppliers and cotton producers.

8. The developing countries, exporters of textiles and clothing, have expressed their concern over the aforementioned measures at the various meetings of the Textiles Committee and GATT Council on 19-20 January, 7 February and 15-16 May 1984. In response, the representative of the United States stated at the January meeting of the Textiles Committee that the United States remained committed to the MFA, intended fully to abide by their obligations under the MFA and the bilateral agreements, and that notwithstanding the use of internal procedures, the MFA remained the governing framework within which the United States textile trade policy was conducted.

9. However, contrary to these assurances, the application of the US additional criteria has confirmed the serious concerns expressed by the developing countries at the January meeting of the Textiles Committee, in particular as regards the two following major issues:

(i) While a strictly literal reading of the United States' announcement appeared to suggest that the decision would be applicable to all suppliers including the developed countries, in practice the US actions have so far been aimed almost entirely at imports from developing countries, including new entrants and small suppliers. Thus the discriminatory character of the restrictions imposed under the MFA has been reinforced by the way in which the US measures of December 1983 have been used to discriminate against the developing suppliers of textiles and clothing.

(ii) Although it was stated in the US announcement that if market disruption or threat thereof was not demonstrated, quotas would not be imposed, this has not hindered the Administration from making calls as soon as they have been triggered by the quantitative criteria. Indeed, this element of automaticity in applying the criteria has certainly contributed to the significant number of calls already made. Since the announcement of the criteria on 16 December 1983, the United States has already issued more than 100 calls on more than 20 developing suppliers, affecting a wide range of textile and clothing products.

10. The serious concern among the developing exporting countries, at both the official level and among the producers and traders directly affected, caused by the automatic and discriminatory application of the December measures, deepened and widened considerably in the last two months because of the initiation of legal procedures concerning two additional sets of measures of a clearly protective nature, again principally directed against imports from developing countries. In the third week of July countervailing duty petitions were filed on practically all textile and clothing products imported from developing countries. The Department of Commerce initiated investigations within 20 days of the filing of the petitions. On 3 August new Customs Regulations Amendments Relating to Textiles and Textile Products were

officially published, which will radically transform the existing law and practice on the rules of origin applicable to all textile and clothing products subject to the MFA/

11. The fundamental legal aspects of the new additional measures should be viewed in the context of the basic objectives of the MFA: "to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products...". These objectives were re-iterated in the 1981 Protocol of Extension, which under Paragraph 2 stated: "...a principal aim in the implementation of the Arrangement is to further the economic and social development of developing countries and to secure a substantial increase in their export earnings from textile products and to provide scope for a greater share for them in world trade in these products". It should also be recalled that the CONTRACTING PARTIES, in their Ministerial Declaration of November 1982 undertook, under Paragraph 7 (i) "to make determined efforts to ensure that trade policies and measures are consistent with GATT principles and rules and to resist protectionist pressures in the formulation and implementation of national trade policy... and also to refrain from taking or maintaining any measures inconsistent with GATT and to make determined efforts to avoid measures which would limit or distort international trade" and in paragraph 7 (viii) "to examine ways and means of, and to pursue measures aimed at liberalizing trade in textiles and clothing, including the eventual application of the General Agreement, after the expiry of the 1981 Protocol extending the Arrangement Regarding International Trade in Textiles (MFA), it being understood that in the interim the parties to the Arrangement shall adhere strictly to its rules".

12. Before examining in more detail the basic legal aspects and the implications of these two additional sets of protective measures, We should like to highlight a few facts of the economic setting relevant to the examination of the protective measures which have been taken. It has to be admitted that there was a strong rise of US imports of textiles and clothing during the course of 1983 and the first half of 1984 in percentages, i.e., in relative terms. This, however, can hardly be considered a sufficient justification for the imposition of new restrictive measures that violate the letter and the spirit of the MFA and of the Protocol of Extension, for the following reasons: (i) The base period to which these comparisons refer, namely 1982, was a period in which the level of imports was quite depressed. In fact, taking a longer-term perspective it is worth noting that between 1973 and 1982 the level of total imports actually declined in volume by 5 per cent while consumer expenditure on clothing had expanded by more than 40 per cent in real terms; (ii) Even if in relative terms total imports did increase faster than consumption in the second half of 1983 and the first half of 1984, in absolute terms - and this is a much more relevant indicator - the bulk of the vigourous expansion in consumption continued to be covered from domestic production. Therefore, the over-emphasis on import growth in relative terms as an argument for the imposition of protective measures can be quite misleading.

13. Furthermore, it has to be emphasized that in 1984, to an even greater extent than in the preceding years, the volume of imports from the developing MFA suppliers have increased much less rapidly than those from non-restricted sources. It can be seen from the annexed chart, that during the first seven months of 1984, as compared with the corresponding period of 1983, US imports

of textiles and clothing from the non-restricted suppliers have risen by 80 per cent (in square yard equivalent) at least twice more rapidly than imports from the developing MFA suppliers. The growing discrepancy between these two growth rates certainly reflects the discriminatory nature of the trade measures directed against imports from developing countries.

14. A more general observation has also to be made. If in a period of slow or stagnating demand, as in the period prior to the second extension of the MFA, a rise in imports was to be considered an element relevant to the recurrence or exacerbation of a situation of market disruption, one could at least expect that the principles and rules of the MFA would be respected in a period of buoyant demand. The more so if one considers the serious balance-of-payments and domestic adjustment problems faced by most developing countries reflecting, inter alia, falling commodity prices and high rates of interest.

15. We would like to examine, in more detail, the two additional sets of protective measures in the light of commitments undertaken by the United States in international agreements. The Customs Regulations Amendments Relating to Textiles and Textile Products dealing with the Rules of Origin as well as the investigations on the countervailing duty petitions, conflict with Article 9:1 of the MFA which states "In view of the safeguards provided for in this Arrangement the participating countries shall, as far as possible, refrain from taking additional trade measures which may have the effect of nullifying the objectives of this Arrangement". They also violate the provisions of Paragraph 5 of the Protocol of Extension which stipulates: "It was agreed that any serious problems of textile trade falling within the

purview of the Arrangement should be resolved through consultations and negotiations conducted under the relevant provisions thereof". These two sets of measures are additional trade restrictions which have the effect of nullifying the objectives of the Arrangement, and which, by virtue of Article 9 of the Arrangement, importing countries are obliged to refrain from taking. In this regard, it is noted that Paragraph 23 of the 1981 Protocol of Extension gives explicit assurances concerning the implementation of the Arrangement, that: "All participants should refrain from taking measures on textiles covered by the MFA, outside the provisions therein, before exhausting all the relief measures provided in the MFA". Such actions by the United States represent a flagrant violation of these assurances.

16. Purportedly, the Rules of Origin Amendments aim at circumvention. However, cases of circumvention, e.g., origin fraud or transhipment, are problems of enforcement for which legal provisions already exist in Article 8 of the Arrangement; these were further elaborated in Paragraph 14 of the Protocol of Extension and in the bilateral Agreements. The unilateral imposition of additional requirements on Rules of Origin blatantly ignore the procedures specifically laid down for such matters. It follows, therefore, that circumvention is only used as an excuse for this action, which can therefore only be interpreted as being designed to seriously damage legitimate trade.

17. Both the MFA and the bilateral agreements made under it refer to origin of products. This can only be interpreted against the background of certain known standards based on internationally accepted conventions, administrative and trade practices as well as judicial decisions. Indeed these regulations

purport to reverse a quite specific chain of US court rulings, the sense of which was expressly confirmed in the US Federal Court of Appeal as recently as 21 August 1984. This framework of rules and understandings has grown up over many years and was in existence at the time that the MFA and bilaterals were signed and during the life of those arrangements up to the present. By attempting through these unilateral Country of Origin Regulations, radically and abruptly to alter these ground rules, the US is in effect frustrating legitimate trade, thereby undermining the operation of the MFA and the bilaterals and causing a further deterioration in the international trading environment.

18. Many aspects of the Country of Origin Regulations, as published, are unclear. The authority for the determination of origin will rest in the hands of individual customs officials, guided only by vague criteria and such information as can be obtained from import declarations. The net result of this will be a situation of uncertainty, confusion, disruption and chaos. The effect of the regulations on trade in the textiles sector is likely to be devastating.

19. While legally infringing the existing rules concerning textiles and clothing under the MFA, the Protocol of Extension, the Bilateral Agreements and the Ministerial Declaration, the unilateral new Rules of Origin represent a dangerous precedent which if applied in other sectors could seriously threaten the entire international trading system.

20. The Countervailing Duty petitions filed against imports of textile and textile products from 13 developing countries were of an unprecedented scope and intensity, covering practically all textile and clothing items exported by 13 developing countries, representing a substantial proportion of their export

earnings. They were obviously another reflection of the strong and increased protectionist pressures exerted by the US textile and clothing industries, translated into additional protective measures since December 1983.

21. As with the case of Country of Origin regulations, the investigations which followed the filing of the countervailing duty petitions are again in conflict with Article 9 of the MFA, with the Paragraphs 5 and 23 of the Protocol of Extension. They also infringe upon the standstill commitments taken in paragraph 7 (i) of the Ministerial Declaration. In this context, when deciding whether a petition, once filed, is legally sufficient it should include in its considerations the compatibility of the investigations with the commitments undertaken by the United States in international agreements, both multilateral and bilateral.

22. Even if the Department of Commerce does not reach an affirmative determination leading to the imposition of countervailing duties, the investigations are in themselves impediments to trade, in view of the harassment, deterring effects and costs involved. In this case, these impediments are of an even more serious nature given the scope and intensity of the measures envisaged, already referred to.

23. If, as a result of the investigations, the Commerce Department reaches an affirmative final determination and countervailing duties are imposed, they would constitute trade restrictions additional to those imposed under the MFA. Thus, for the products already restricted under the MFA the exports of the developing countries would be doubly jeopardized.

24. The developing countries, exporters of textiles and clothing considered these measures as discriminatory and designed to harass and restrain legitimate trade for domestic political reasons. They have called on the United States authorities, in a press statement issued in early August, to resist the countervailing duty petitions, to withhold implementation of country of origin regulations and to afford adequate opportunity for prior bilateral consultations with affected trading partners, with a view to seeking satisfactory solutions to such problems as might exist.

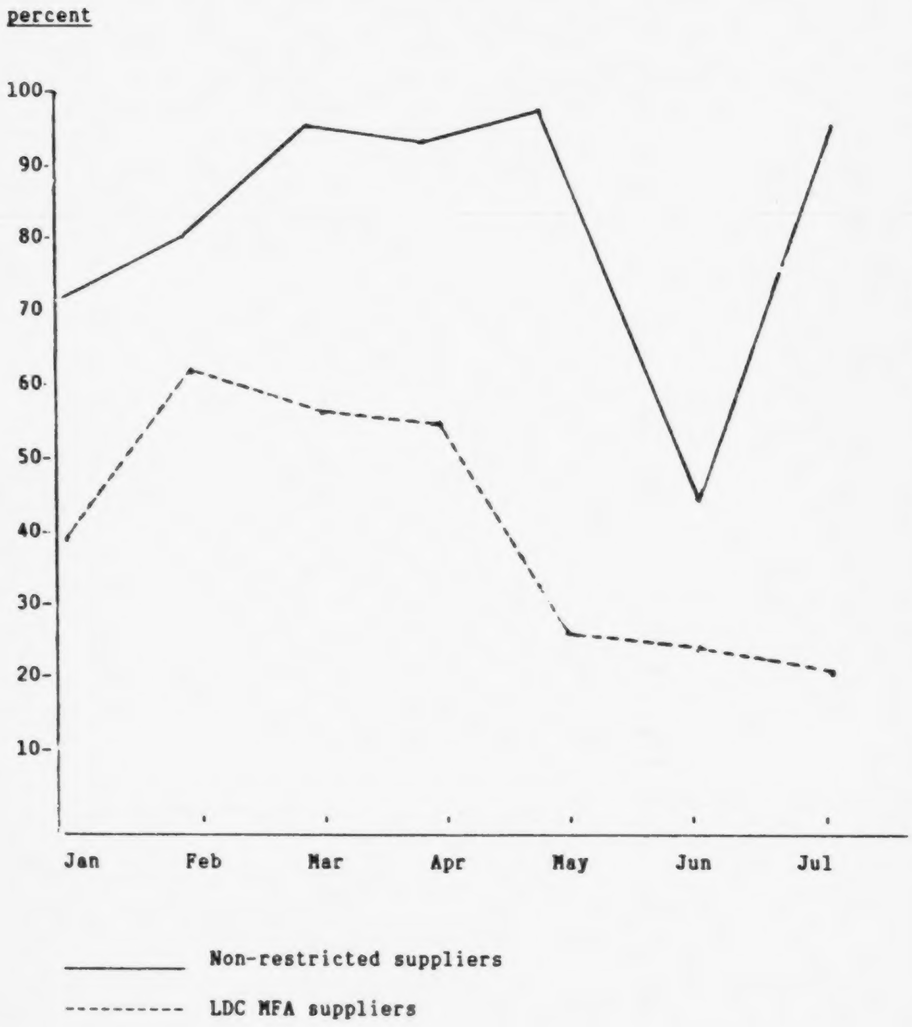
25. Despite the expression of such concerns by the developing exporting countries, the United States authorities have accepted the countervailing duty petitions and initiated the investigations accordingly. Furthermore, only very limited exemptions from the application of new country of origin regulations were decided, which are of little or no use to exporting countries and in no way address the substance of the problem.

26. These actions were taken simultaneously during a period of intense political pressures in the United States. Moreover, in the case of the countervailing duty investigations, they are of a discriminatory nature given the fact that they are directed against developing countries which do not qualify, under the US legislation, for an injury test. The situation, as described, clearly reflects politically motivated harassment of trade.

27. In these circumstances, it is the unequivocal view of the developing countries, exporters of textiles and clothing that the operation of the MFA is being seriously undermined, the international trading environment is being further deteriorated, and the timely implementation of the GATT Work Programme will be impaired.

Imports of Textiles and Clothing from Non-Restricted Suppliers and from LDC MFA Suppliers into the United States, in 1984 a/

Percentage change over the corresponding month in 1983



a/ Derived from data in square yard equivalent.

Source: American Textile Manufacturers Institute, Washington, Textile Import Trends, various issues.

The Journal of Commerce

NEW YORK, WEDNESDAY, SEPTEMBER 12, 1984

Textile Import Curbs — to Be or Not to Be

By DAVID J. STEINBERG

Textile import controls are the best known, most persistent example of "protectionism" in modern times. Both the U.S. Department of Commerce and the White House office of trade negotiations give more prominence to import restraints on textiles and apparel than those on any other product.

The Reagan administration has now put a new twist into the long skein of these import restraints. It is going to tighten the controls on shipments that originate in one country but undergo further processing in another country, till now coming under the quota for the country of final shipment.

What is good, legitimate business for Asian and Yankee traders is seen as injurious to U.S. textile and apparel producers and disrupting the warp and woof of the quotas that blanket U.S. imports of cloth and clothing.

Vigorous objections from Far East exporters and U.S. retailers, concerned most immediately about the fate of apparel imports already programmed for the Christmas season, have brought about a "holiday" in planned enforcement of the new restrictions. However, the administration's decision to fashion the new wrinkle in textile import curbs, and its intention now to enforce them after the "holiday," is a regrettable development on which I offer this lament, with acknowledgments to Hamlet.

To tighten textile import controls or not to tighten them. That was the question and, it seems, the only question pondered in the highest councils of government concerning the challenge from rising textile-apparel imports. In a sense, the president and his Cabinet deliberated "whether 'tis nobler in the mind to suffer the slings and arrows of outrageous fortune or to take arms against a sea of troubles" — especially the election-year troubles the administration could encounter by not acceding to the domestic industry's demand for tighter import restrictions.

To arms, came the order. Tighten the import controls, came the command, when the nobler choice (in the mind, and in the best interests of the domestic industry and the nation at large) is to seek a coherent textile-apparel redevelopment strategy addressing the real problems and needs of this major industry in a rapidly changing world.

Some degree of temporary import limitation might be necessary to buy time for such an undertaking, but only as a last-resort component of the coordinated best efforts of government, business and labor, not as the sum and substance of government's response to the industry's appeal for help.

Through all the twists and turns of textile import curbs going back nearly 30 years, there has never been such a strategy. None, it seems, has ever been proposed in the administration, Congress, academia, the media or the industry itself, nor practically anywhere among "liberal trade" forces battling import barriers, old and new.

Like the government, the "free traders" themselves address only one question concerning textile-apparel imports — to restrict them or not to restrict them. How to ensure the viability of a textile-apparel industry (now employing about two million people), and do it in a way that serves the total public interest, escapes their concerns and is absent from their rhetorical blasts against protectionism.

Lack of properly structured, politically realistic attention to the real problems of this and other U.S. industries is but one facet of U.S. unpreparedness on how to build an open world economy in the best interests of consumers, workers and the nation as a whole. The so-called "free traders" are no less at fault than the so-called "protectionists."

Mr. Steinberg is president of the Alexandria, Va.-based U.S. Council for an Open World Economy, a private, public-interest organization.

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Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Subcommittee on International Trade of the Senate Committee on Finance in a hearing on the state of the U.S. textile industry under the trade agreements program. September 18, 1984

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

This hearing, like all other hearings that have dealt in some degree with the state of the U.S. textile industry, focuses on the extent to which import controls on textiles and apparel equitably protect the interests of U.S. businesses and workers producing or selling such products, particularly those businesses and workers engaged in manufacturing such goods in competition with imports. While such an assessment is useful and indeed important, it does not measure up to the kind of inquiry that best addresses the problems and needs of this major U.S. industry in the context of the needs and objectives of the nation as a whole.

Through one kind of textile import control or another, we have had a textile trade policy for nearly 30 years, but never a coherent, comprehensive, textile policy in the overall and most enlightened sense. Nor is there any evidence that the formulation of such an overall policy -- such a textile-and-apparel redevelopment strategy -- is in the making. To the extent that government assistance of any kind is justifiable for this industry, it should take the form of such a strategy. Import control in some degree might be essential to buy time for such an initiative, but such trade restraint should be temporary and only a last-resort component, not the permanent fixture that import controls appear to have become. A definitive free-trade premise (planning for the ultimate removal of trade barriers) should be factored into such a strategy, and firm, explicit commitments should be forthcoming from management and labor as well as government on things that need to be done to ensure the success of such a policy. Government's involvement should include reassessment of all statutes and regulations materially affecting the industry's ability to adjust to new and rapidly changing international economic realities. Any inexcusable inequities should be corrected forthwith.

Our Council appears to be the only advocate of such policy reform. To restrict or not to restrict imports -- and, if restriction, then how much -- is not the sum and substance of our Council's attention to the U.S. textile-and-apparel industry. We are concerned with the real problems and needs of the people and communities that are dependent on this industry in one way or another -- a concern cast in the framework of concern with the needs and aspirations of the American economy as a whole. We note with regret that these dimensions of the textile-and-apparel issue are neglected no less by other advocates of freer world trade than by those who defend restriction of textile-and-apparel imports.

Statement Before the Sub-Committee on International
Trade,Committee on Finance, U.S.Senate

National Knitwear and Sportswear Association
386 Park Avenue South
New York City, N.Y.

SUMMARY

The National Knitwear and Sportswear Association, representing more than 450 member companies, submits testimony for the record to make the following points:

1. Register stsong concern about the continuing erosion of the domestic apparel manufacturing base by imports from very low wage countries and from countries whose economies are state controlled.

2. Technology does not appear to offer any means of offsetting the wage gap which $.16 per hour generates in the apparel field. Knitting technology has advanced, and American producers have made substantial investments in the latest computer controlled electronic equipment, but the pricing and wage policies of the Far East and other developing areas cannot be overcome in most knitwear products.

3. The present surge of imports, despite a brief period of increased action under the bilateral agreements based on the MFA strongly suggests that fundamental improvements in the MFA structure are needed if the U.S. industry is to remain viable.

4. The NKSA strongly supports the recent rules of origin regulations and believes they represent a step toward better enforcement of existing agreements and existing law. They will not, by themselves, bring about lasting change in the import situation, but will make the practice of quota evasion more difficult.

5. Government policy on textile and apparel imports needs to be stated more affirmatively and clearly in the interests of preserving more than two million production jobs in a crucial labor-training sector of the economy. Industry must know whether to invest for the long pull, or whether to interpret recent import surges and hints of further concessions to some countries in the Caribbean as a signal of official indifference. Policy formation on such matters as the Caribbean Basin must reflect the fact that the government has not reduced giant quotas held by several Far East countries, and has not rolled back unfilled quotas in many countries.

6.The import situation must be controlled to prevent further growth of textile and apparel imports, either through revision of the MFA or through legislative means. As an immediate measure, must be expanded to cover all textile products, regardless of fiber content.

TESTIMONY OF SETH M. BODNER, EXECUTIVE DIRECTOR,

NATIONAL KNITWEAR AND SPORTSWEAR ASSOCIATION
386 Park Avenue South
New York City, N.Y. 10016

Mr. Chairman, I am Seth M. Bodner, Executive Director, National Knitwear and Sportswear Association, a national trade association of manufacturers and related groups representing producers of knitted outerwear, including sweaters, knit dresses and shirts and sportswear of all types. Our association has some 450 regular members, most of whom are manufacturing companies, and 300 additional associate members in the fiber, yarn, machinery and related fields.

I am pleased to have this opportunity to bring to this Committee's attention some of the concerns of our portion of the textile and apparel industrial complex. I am also going to take the liberty of suggesting some courses of action which might be explored in the interests of improving the economic well being of our industry and its workforce.

We are vitally concerned with, and fundamentally threatened by, the pressure of imports from low wage and state controlled economy countries. Like many other manufacturing industries in the United States, America's knitwear producers have found themselsves and their markets confronted with a degree of competition which no available or forseen technology can overcome.

Fundamentally, that competition is based on the unlimited availability of cheap labor in other countries, most notably those of the Far East. This cheap labor--$.16-.18 per hour in

China and Sri Lanka. These low wages, closely matched elsewhere, are combined with a lack of labor standards and working conditions legislation which further reduce basic manufacturing costs and together, permit the production of apparel on terms which cannot be matched here. Obviously, many of these factors would be prohibited by law in the United States.

America's knitwear manufacturers have adopted new technology--much of it imported--and have applied modern manufacturing methods to their work. We have taken advantage of duty-suspension legislation to acquire computerized electronic flat knitting machines, and we have installed other production-improving systems. But the wage and labor practices or standards gaps are too great to overcome with available technology. Further, these are often coupled with lower raw materials prices than are available in the United States.

And too often, the commercial coup de grace is added by the practices of political pricing and evasion of established quotas. The latter have achieved particular notoriety of late as a result of the issuance of new country of origin rules by the Customs Service, acting pursuant to direct Presidential and Congressional authority.

The evasion practices addressed in those regulations have but one purpose--defeat of the entire system of international bilateral agreements by which the United States attempts to bring about orderly marketing conditions for textiles and apparel.

Last year, these factors combined to help imports of the major products of our industry exceed one billion garments. And that figure does not include similar products made with fiber blends developed to fall outside of the international textile agreements.

Imports of sweaters made with the fibers covered under the MFA, reached a record·level of 175,000,000, or fourteen and one half million dozen, excludiog infants sweaters brought in as parts of childrens sets. Knitted shirts amounted to 398,628,000 garments, and knitted headwear imports reached

Mr. Chairman, imports are rising in 1984. Total apparel imports through July of this year are up more than 28% over the comparable months of 1983. A table on these imports, their growth during the past few years, and their penetration of the U.S market is attached. This penetration continues to advance.

In addition to the principal product areas covered by the MFA, that is products of cotton, wool and man-made fibers, and blends which are principally of those fibers, nearly seven million dozen garments of non-MFA covered fibers have entered during the first seven months of 1984. Of these,3.8 million dozen were knitwear items, the product of a truly stirring combination of greed and imagination.

The MFA and the bilateral agreements stucture built upon it are, like Humpty-Dumpty, falling off the wall . The drum beat criticism of quota "calls" and new rules of origin by the retail and importing communities obscures the harsh [redacted] fact that the MFA is not providing adequate protection for domestic industry or its workers. It is not establishing orderly markets for world trade or for United States trade in textiles and apparel. Indeed, the combination of existing tariff and quota programs has not been adequate to keep pace with the imagination, speed and daring of the importing community, nor with the demand of the retail community for merchandise which can be bought low and sold high.

All the forces of the Committee for the Implementation of Textile Agreements, its policy-making superiors and its enforcers, the U.S. Customs, have not been able to keep the humpty-dumpty of MFA based restraints together. The MFA egg is cracking from the blows of evasion, transhipments, outright criminal fraud and the manipulation of every part of the textile producing process to avoid controls and bring into the market place the cheapest-first-cost- highest-mark-up-potential garment or product possible.

In addition to these pressures, we are faced with the natural demands of the developing countries to seek a place in the world's largest integrated apparel market.

American consumers, American workers and firms will continue to pay a heavy price if the apparel and textile import situation is not corrected. Either the MFA must be restored to a high degree of effectiveness, or some other mechanism mut be developed which will assure the preservation of the American fiber, textile apparel structure.

Make no mistake about this point, American consumers benefit most from the maintenance of a strong domestic textile and apparel industry. As this industrial complex shrinks, it loses the ability to provide effective domestic competition and an alternative resource for American retail establishments. Deprived of that resource, the very firms which now rush to import will confront foreign controlled supply, higher prices and an altogether different business environment than they might have anticipated. They will also be short some of the customer buying power of the more than two million Americans who make their living producting America's textile products.

This erosion is taking place already. Do not look solely to the statistics. Consider your own experience. Take a field trip. Go Shopping.

Mr. Chairman and members of the Committee, go and see for yourselves how difficult it can be to find American apparel in the stores. If you can't, neither can other consumers. Will your preference then be to buy imports, or will that be a result of simply not having the time to search and search for American goods? The consumer, especially the time-pressed career woman or child-rearing housewife, far from dictating to the stores what she shall buy, is much more their prisoner in having to deal with the choices they have made. Having made the import choice, the retail outlets are putting themselves on the road to becoming the prisoners of the overseas suppliers.

These retail choices are dictated by a basic profit motive, which in turn has led to a global search for merchandise available on a wholesale basis to the retail store at prices low enough to ensure a very large mark-up and higher resulting profit. Take a look at recent import volumes and rising retail profits and consider for yourselves whether importing has not paid for the stores, even if it has not so much helped American consumers. The difference between prices paid by retailers for the imports they buy and the prices they charge American consumers is appearing in those retail industry and importer profit figures. It is not being passed through to American consumers.

A recent article in Newsday quoted Hong Kong businessmen as saying that a sweater sold to an American retail store from Hong Kong went at $8.00 and was sold to the U.S. consumer for between $35.00 and $40.00. Such mark ups abound. Bear in mind, when the retail witness speaks of a 50% mark up, what he really means, by ordinary arithmetic standards, is 100%. Buying at $10 and selling at $20, he refers to a 50% mark-up, meaning that 50% of the final selling price was mark-up. That is the so-called "keystone" mark-up. In these days of import selling, it is not uncommon to see goods move at four and five times their cost to the retail store.

With these mark-ups in view, defeating the quota system has become a game of high stakes. Modern communications and transportation make possible the rapid exchange of design and production information, and loophole ridden quota and tariff programs make possible a degree of exploitation not hitherto dreamed of. And we are not yet at the end of this process.

In the words of one attorney engaged in the field Customs practice, after he described advising clients to put female buttons on male sweaters and vice versa to change classifications and avoid quota or embargo problems, such manipulation of the system brings, "What I call sex and violence" to Customs practice. To domestic knitwear manufacturers, it sounds more like fraud.

And there have been prosecuted examples of more blatant corruption and fraud affecting quota administration and the Customs Service, cases uncovered by the Service--to its credit--but nonetheless solid examples of criminal activities affecting both the collection of duties and the evasion of the quota system. The large dollars involved in this trade add an element of potential corruption which only the blind can ignore.

Recently, the Customs service issued new regulations concerning the movement of goods to the market, and the determination of the appropriate country of origin for imported textile and apparel products. Instructions to the field for the operation of these regulations shed some light on the background. This memorandum was included in a recent court filing challenging the new regulations. As an official statement of the nation's front line law enforcement officers for trade matters, it is worth pondering.

> The Customs Service has identified textile importations as an area of consistent and persistent fraudulent abuse of quotas and duty rates. In order to protect U.S. Business interests from unfair practices and the public from inferior or mislabeled goods we are instituting a program of intensive examinations at the port of arrival for all shipment of textiles.

Similarly, the statement accompanying these rules and regulations in the Federal Register offers insight into the beliefs of the federal officials most directly concerned. They said, in part,

> " ...in recent months the U.S. Customs Service has been faced with an ever increasing number and variety of instances where attempts have been made, either intentionally or otherwise, to circumvent the textile import program."

Also, Mr. Chairman, the committee should be familiar with the hearings and testimony developed by Mr. Dingell in the House of Representatives. The tariff and quota enforcement problems identified there are not new, nor are they the fault of a particular administration. But they have expanded with apparent geometric progression. Indeed, the cries of anguish from the importing and retail community not only are lacking in justification under the circumstances, they strongly suggest that the problem was greater than anyone knew. The shoe has pinched.

Furthermore, Mr. Chairman, the recent import figures give the lie to any notions of shortages of merchandise for holiday or subsequent seasons. Imports through July are at record levels, the government has deferred the effective date of the new regulations until exports made on or before October 31, and we have no doubt that the August, September, October and November apparel arrivals will be very large. Consumers will find plenty of goods, and there is no bassis in the quota program on which they should expect to find significant price icreases on imported goods.

Hong Kong complains, and even China growls, but any apparel actually made in these countries and appropriately labeled can be imported without difficulty into the United States under the massive quotas they now enjoy.

The real difficulty being faced by Hong Kong and China is that its frauduent labeling is over. Goods described as coming from the "British Crown Colony" will now, in fact, have to have their origins there and not in Communist China. Is that wrong?

Similarly, China will not be able to export massive quantities of goods by the simple expedient of moving them through third countries for minor treatment or processing to change their legal origin for quota purposes. The million dozen total for sweater quotas to which they agreed will have to suffice. Is that unfair? The New Zealand sweater fiasco will not be repeatable, and that no doubt bothers the Communist free enterprisers who seem to have taken control recently. But those schemes surely were not part of the understandings inherent in the bilateral agreement. No U.S. negotiator would spend his time negotiating a deal to limit imports of Chinese made apparel to a given level, only to have as part of the understanding that China could ship as much as it wanted to the U.S. through third countries. Nor would the U.S. simply agree to a process which compelled it to chase over the entire world, from island to island, to plug loopholes in the agreement with China. To argue the contrary is to fly in the face of common sense.

The basic premise of all of the United States bilateral textile agreements is that the goods are produced in the countries concerned in the negotiations. To have meaning, the quota agreements can be intespreted in no other way.

Mr. Chairman, it is well worth noting that the effect of the rules of origin criteria recently set out by the Customs Service pursuant to court cases and to carry out policies of the President will directly benefit many smaller developing countries in Asia and Latin America.

Now, quotas held in these countries will have to be used for actual manufacturing there. No longer will the local economic benefit be confined to that attending marginal processing of a Chinese made product. It will be done locally, benefitting the local economy and workforce.

Remarkably enough, we do not see the State Department out making this point forcefully. We do not see any publicly expressed understanding of this in Geneva or elsewhere y the small developing countries. What we appear to be seeing is the direct result of pressure from the Hong Kong entrepreneurial community which has invested in quota in these countries and which wants badly to continue to manipulate the system from a Hong Kong base using China -the cheapest labor source available- as its producer.

Is this the interest worth the concern of the U.S.,or of this Congress? We think not, and believe that eventually, the force of this Hong Kong lobby in the international community will pass, and the basic benefits of these regulations to the smaller countries as well as to the United States industry then will be seen by all concerned.

In summary, the present system was sending an unmistakable signal to many apparel manufacturers based in the United States. The signal was that U.S. government policy in fact, if never in word, was to transfer the industry's apparel manufacturing activities off shore. Put more kindly, it was to stand by while the industry transfers itself off shore. But the new rules of origin regulations, and the recent efforts to crack down on customs fraud through Operation Tripwire are beginning to sound a more encouraging note. Nevertheless, the record is not inspiring, and the industry waits, watching each move with skepticism and concern.

Lax enforcement of bilateral agreements, schemes to expand imports from the CBI countries without corresponding reductions in the massive quotas already held in the Far East, refusal to give serious consideration to regional or global restraints on even the most heavily impacted products, and finally, an apparent reluctance by Cabinet level officials to defend in public the actions they have taken on behalf of the domestic industry and its workers all send discouraging signals.

There is little evidence in official comments, speeches or actions that those in authority truly understand the importance of this fiber, textile and apparel industry to the economy, to the training and development of our people, and to the ability to support the premier international political role for the United States which has been central to American foreign policy since World War II.

This industry is vital to national security in the most fundamental ways. It will not survive current pressures which compel short term decisions to manufacture in cheap labor countries in order to compete with imports from cheap labor countries which appear to be running essentially out of control. When manufacturers of apparel in America decide to become marketers of overseas made apparel to Americans, America loses.

Sector -by-sector the industry has been weakened; in some cases all but destroyed. Even now, textile manufacturers scramble to leave the apparel fabrics business for the elusive safe harbor of home furnishings, but can that work, even for them? When others comment about conditions in the sweater industry, where more than 60 % of consumption is imported, it is not only out of concern about the lost opportunities for garments, yarn and fiber that these imports represent, it is out of concern that the same process not be repeated elsewhere in the industry.

What can be done?

1. Government, and particularly the Congress, can tell the domestic industry and its workers that maintenance of the domestic fiber-textile-apparel industrial base is national policy. There must be a halt to further growth in textile and apparel imports.

2. The policy will be carried out through negotiated agreements if possible, but unilaterally if not.

3. To the extent that international political circumstances

must dictate particular settlements with particular countries, those will not come at the expense of further penetration of the U.S. market. If necessary, other agreements will be adjusted downward, especially those of the very largest suppliers, and those which have been unfilled.

4. The MFA must be revised to conform with the conditions of trade today--high volatility, rapid exchange of technical and fashion information, difficulty of enforcement, and the slowing of growth in basic markets in the industrialized importing countries. United States negotiators must seek appropriate changes in the MFA which will assure the ability of the United States as an industrial country to carry out the basic policy commitments set out above.

5. Textile products not now covered by the MFA must be brought into its framework without delay. This can be done through negotiation, and/or by legislation. Authority presently exists to negotiate agreements on these products,(Section 204 of the Agricultural Act of 1956, as amended.), but it is doubtful that unilateral controls can be established thereunder in the absence of negotiated agreements. This lack of back-up authority is likely to make negotiations difficult and costly, if not impossible. The dramatic growth of the end-run-non-MFA trade compells action on both the legislative and negotiating fronts.

No doubt other steps can be devised. But these represent feasible starting points.

On behalf of our industry, I thank the Committee for receiving these comments.

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KNITWEAR &
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PRESS INFORMATION

For Release: STATEMENT OF NKSA POLICY ON INTERNATIONAL TRADE

The Board of Directors of the National Knitwear and Sportswear Association has adopted the following policy statement on international trade. This statement will guide Association activities vis-a-vis all governmental and other groups concerned with international trade.

*** *** ***

In view of the continuous record setting growth and presence of apparel imports from low-wage and state-controlled-economy countries, and the fundamental threat these pose to the continued viability of American production, to the jobs of more than one million Americans and to the hundreds of communities in which these jobs and businesses are located.

The Board of Directors of the National Knitwear and Sportswear Association resolves that every practical and legal effort must be made by the Association to prevent further growth of knitwear and other apparel imports from low-waged based or state controlled economies, and from companies benefitting from subsidies or other trade practices in violation of U.S. law and/or international practice.

The NKSA shall urge the government to take account of the heavy penetration of imports in certain product markets and to prevent a repetition of these conditions in other categories now coming under similar import pressures.

The NKSA considers that garments produced outside the Customs Territory of the United States, including those produced only in part in the so-called insular possessions, shall be considered imports subject to such quota or other limitations as may be established. Articles produced under Section 807 of the U. S. tariff shall be considered imported for purposes of policy.

To carry out this policy, the NKSA will work with the Executive and Legislative branches of government to gain firm, effective negotiated limits on imports of knitwear and other apparel. It will consider and support such additional legal or legislative actions as may from time to time appear necessary and appropriate to achieve these ends.

The NKSA shall demand rigorous enforcement of quota arrangements now in place or to be negotiated, including rational assignment of country-of-origin for quota purposes, correct labeling of imported and domestically produced merchandise, and such further measures as may be needed to fully enforce and carry out the purposes of the quota program. In particular, the Association shall seek to prevent exploitation of Customs loopholes by establishing that the country of origin for knit-to-shape garments shall, for quota purposes, be the country in which the knitting is performed, and to obtain clarification of present rules and full enforcement thereof so that partial production operations do not disrupt or undermine the import limitations in force under the textile quota agreements.

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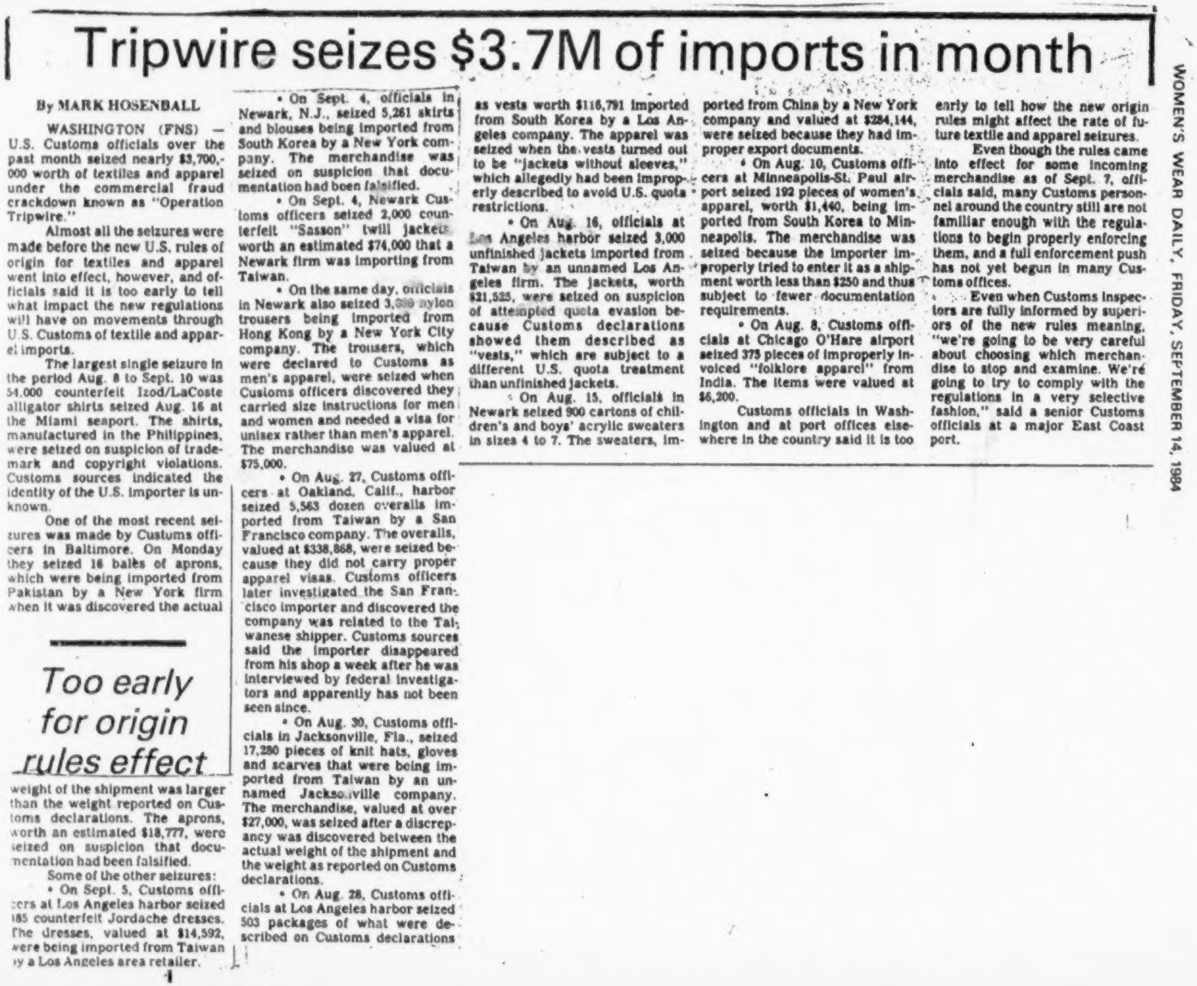


WOMEN'S WEAR DAILY, FRIDAY, SEPTEMBER 14, 1984

Tripwire seizes $3.7M of imports in month

By MARK HOSENBALL

WASHINGTON (FNS) — U.S. Customs officials over the past month seized nearly $3,700,000 worth of textiles and apparel under the commercial fraud crackdown known as "Operation Tripwire."

Almost all the seizures were made before the new U.S. rules of origin for textiles and apparel went into effect, however, and officials said it is too early to tell what impact the new regulations will have on movements through U.S. Customs of textile and apparel imports.

The largest single seizure in the period Aug. 8 to Sept. 10 was 54,000 counterfeit Izod/LaCoste alligator shirts seized Aug. 16 at the Miami seaport. The shirts, manufactured in the Philippines, were seized on suspicion of trademark and copyright violations. Customs sources indicated the identity of the U.S. importer is unknown.

One of the most recent seizures was made by Customs officers in Baltimore. On Monday they seized 16 bales of aprons, which were being imported from Pakistan by a New York firm when it was discovered the actual weight of the shipment was larger than the weight reported on Customs declarations. The aprons, worth an estimated $18,777, were seized on suspicion that documentation had been falsified.

Too early for origin rules effect

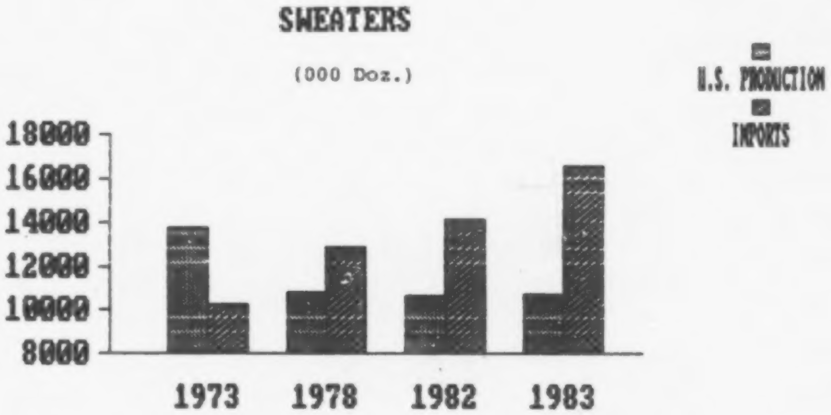
Some of the other seizures:

- On Sept. 5, Customs officers at Los Angeles harbor seized 185 counterfeit Jordache dresses. The dresses, valued at $14,592, were being imported from Taiwan by a Los Angeles area retailer.
- On Sept. 4, officials in Newark, N.J., seized 5,261 skirts and blouses being imported from South Korea by a New York company. The merchandise was seized on suspicion that documentation had been falsified.
- On Sept. 4, Newark Customs officers seized 2,000 counterfeit "Sasson" twill jackets worth an estimated $74,000 that a Newark firm was importing from Taiwan.
- On the same day, officials in Newark also seized 3,[illegible] nylon trousers being imported from Hong Kong by a New York City company. The trousers, which were declared to Customs as men's apparel, were seized when Customs officers discovered they carried size instructions for men and women and needed a visa for unisex rather than men's apparel. The merchandise was valued at $75,000.
- On Aug. 27, Customs officers at Oakland, Calif., harbor seized 5,563 dozen overalls imported from Taiwan by a San Francisco company. The overalls, valued at $338,868, were seized because they did not carry proper apparel visas. Customs officers later investigated the San Francisco importer and discovered the company was related to the Taiwanese shipper. Customs sources said the importer disappeared from his shop a week after he was interviewed by federal investigators and apparently has not been seen since.
- On Aug. 30, Customs officials in Jacksonville, Fla., seized 17,280 pieces of knit hats, gloves and scarves that were being imported from Taiwan by an unnamed Jacksonville company. The merchandise, valued at over $27,000, was seized after a discrepancy was discovered between the actual weight of the shipment and the weight as reported on Customs declarations.
- On Aug. 28, Customs officials at Los Angeles harbor seized 503 packages of what were described on Customs declarations as vests worth $116,791 imported from South Korea by a Los Angeles company. The apparel was seized when the vests turned out to be "jackets without sleeves," which allegedly had been improperly described to avoid U.S. quota restrictions.
- On Aug. 16, officials at Los Angeles harbor seized 3,000 unfinished jackets imported from Taiwan by an unnamed Los Angeles firm. The jackets, worth $21,525, were seized on suspicion of attempted quota evasion because Customs declarations showed them described as "vests," which are subject to a different U.S. quota treatment than unfinished jackets.
- On Aug. 15, officials in Newark seized 900 cartons of children's and boys' acrylic sweaters in sizes 4 to 7. The sweaters, imported from China by a New York company and valued at $284,144, were seized because they had improper export documents.
- On Aug. 10, Customs officers at Minneapolis-St. Paul airport seized 192 pieces of women's apparel, worth $1,440, being imported from South Korea to Minneapolis. The merchandise was seized because the importer improperly tried to enter it as a shipment worth less than $250 and thus subject to fewer documentation requirements.
- On Aug. 8, Customs officials at Chicago O'Hare airport seized 373 pieces of improperly invoiced "folklore apparel" from India. The items were valued at $6,200.

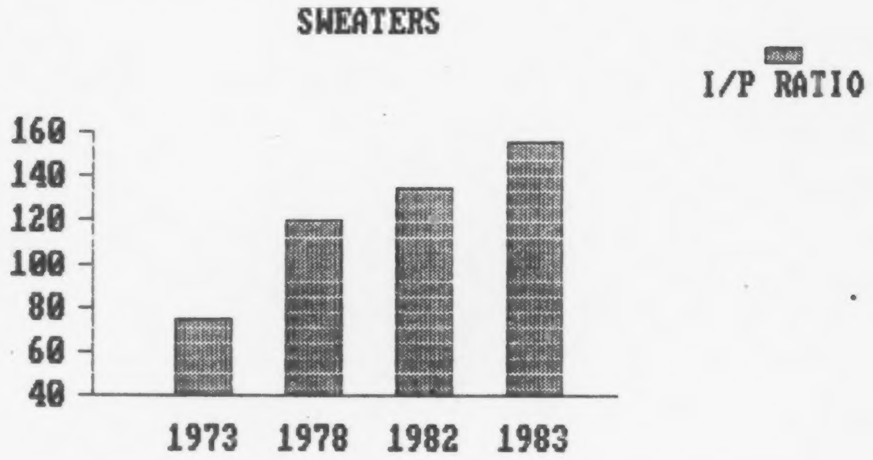
Customs officials in Washington and at port offices elsewhere in the country said it is too early to tell how the new origin rules might affect the rate of future textile and apparel seizures.

Even though the rules came into effect for some incoming merchandise as of Sept. 7, officials said, many Customs personnel around the country still are not familiar enough with the regulations to begin properly enforcing them, and a full enforcement push has not yet begun in many Customs offices.

Even when Customs inspectors are fully informed by superiors of the new rules meaning, "we're going to be very careful about choosing which merchandise to stop and examine. We're going to try to comply with the regulations in a very selective fashion," said a senior Customs officials at a major East Coast port.



SOURCE: U.S. Department of Commerce, International Trade Commission



SOURCE: U.S. Department of Commerce, International Trade Commission

nrma

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CASE HISTORIES
OF CONSUMER EFFECTS
OF THE U.S. TEXTILE/APPAREL IMPORT PROGRAM

Compiled by

The Merchants Action Committee on Trade

of the

National Retail Merchants Association

September 1984

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INTRODUCTION

For nearly a quarter of a century U.S. producers of apparel and textile products have enjoyed extraordinary protection from foreign competition. Today, almost 90 percent of total U.S. imports of apparel products and 75 percent of textile imports are covered by some kind of quota arrangement established by bilateral treaties with our trading partners. In recent months, as a result of new procedures for imposing trade restraints on non-quota countries and categories — the "call trigger mechanism" established by the Reagan Administration in December 1983 — trade in textile and apparel products has become even more difficult.

This restrictive administration of the U.S. textile program harms consumers in very tangible ways. As the purchasing agents of U.S. consumers, retailers have seen these effects first hand. Embargoes, unilateral quotas resulting from the "call trigger mechanism" and changes in country of origin rules have made the market unpredictable.

This document details these effects. It is based upon first hand accounts from the member-firms of the National Retail Merchants Association (NRMA). Interviews with senior merchants of NRMA member-firms were conducted during the spring of 1984, and the case histories compiled herein apply predominantly to marketing decisions made during 1983 and early 1984 for the fall 1984 and spring 1985 selling seasons.

The data is displayed via "Consumer Effects Statements" which provide a one-page summary of each case including the category of the apparel, the exporting country or countries, the cost differences from one year to the next, and a short description of the difficulties encountered by the retailer in attempting to source the particular merchandise.

Individual case histories have been grouped into four categories: (1) Those that demonstrate how the textile quota system reduces consumer product choice; (2) those that demonstrate how quotas increase consumer prices either because of increased "quota charges," so-called "floor prices," or exporting nations "trading up" into higher priced lines of merchandise; (3) those that demonstrate how quotas cause the elimination of lower priced or "budget" merchandise; and (4) those that demonstrate how quotas result in poorer product quality and less product innovation. In addition Appendix A provides some basic data on "quota charges" — the intangible costs associated with purchasing the "right" to export products from a foreign country.

NRMA is composed of 3,700 companies representing approximately 45,000 leading chain, department and specialty stores in the United States, and an additional 1,000 retail firms in 50 nations abroad. Member firms have current annual sales in excess of $150 billion and employ nearly 3 million workers.

REDUCED PRODUCT CHOICE

Case No: 1-003

Consumer Effects Statement

Category: 446	Country: Malaysia/Hong Kong/Italy
Fiber: Wool	Description: Shetland sweaters (jrs./miss.)

COSTS PER UNIT

1982					1983				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Malaysia	4.29				Italy	6.40			
					H.K.	6.60			

COMMENTS: The increased demand for sweaters has put severe pressure world-wide on Category 446. Price increases first became apparent in October 1983 for sweaters purchased for fall 1984 delivery. These increases are showing up for retailers and for domestic importers. In the example above, the tight quota situation in Malaysia forced this retailer to seek sweaters elsewhere. The Hong Kong price was 53 precent higher. The retailer got a slightly better price in Italy. The high price of sweaters in Hong Kong is the result of the U.S. import program coupled with increasing demand for these products, and the inability of merchants to find comparable goods produced in the U.S.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 2-002

Consumer Effects Statement

Category: 646 Country: Taiwan

Fiber: Acrylic Description: Sweaters (girls/infants)

COSTS PER UNIT

1983					1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Taiwan	3.29				Taiwan	4.84		1.25	
	3.25					4.79			

COMMENTS: The retailer in this example had a long history of dealing with a single Taiwan manufacturer of girls and infants sweaters. These sweaters sell for between $12.00 and $15.00 retail and are relatively detailed garments containing jacquard patterns. In this example, when the retailer approached the manufacturer for an order of 2,000 dozen for the fall 1984 selling season, the retailer was advised that the manufacturer would have to charge 47 percent more than the year before. The new selling price included a $1.25/unit quota charge which represented 25 percent of the garments' first cost. Moreover the retailer was advised that the manufacturer would not be able to supply the full 2,000 dozen, but only 1,000 dozen. If these garments could be manufactured in the United States they would cost, at retail, between $25.00 and $35.00.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 2-004

Consumer Effects Statement

Category: 348	Country: Singapore
Fiber: Cotton	Description: Pants (infants/girls/y teen)

COSTS PER UNIT

1983/84

Country	FC	LC	Domestic	Average difference bet. LC and domestic
Sing. (3/6x)	3.23	3.92	6.22	59%
(7/14)	3.65	4.54	7.19	58%
(y teen)	4.08	5.00	9.66	93%

COMMENTS: The retailer placed an order with a proven manufacturer for 3,690 dozen at a total first cost of $157,000. The manufacturer cancelled the order after it was placed because he couldn't obtain a sufficient quantity of "quota" to ship the order at the original quoted price. Domestic replacements are dramatically more expensive and delivery dates for domestically produced substitutes are in September 1984 — far too late for the fall 1984 selling season originally intended.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No.: 3-001

Consumer Effects Statement

Category: 646 Country: Korea

Fiber: Acrylic Description: Sunday angora sweaters (girls/ y teen)

COSTS PER UNIT

1983

Country	FC	LC	Quota	Domestic
Korea	2.80- 4.28			

COMMENTS: The retailer placed orders for 740 dozen at a first cost of $35,600. The order was cancelled by the manufacturer because he could not obtain sufficient "quota" from the Korean government to ship the garments. No domestic replacements are available because the 80 precent acrylic 20 precent nylon yarn is not available in the U.S. childrens market. The retailer will not carry this line of goods in fall 1984.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 6-002

Consumer Effects Statement

Category: 359	Country: Hong Kong
Fiber: Cotton	Description: Corduroy jumpers (juniors/girls)

COSTS PER UNIT

October 1983					February 1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
H. K. (juniors)	7.00 - 8.60	8.58 - 10.54		14.50 15.60	H. K. (juniors)	13.00 - 15.60		6.00	14.50 - 19.00
H. K. (girls)	3.62	4.38							8.25 (ave)
H.K. (girls)	3.79	4.58							9.25 (ave)

COMMENTS: In December, the U.S. government imposed a new quota on category 359 from Hong Kong as a result of its "call consultation" trigger mechanism announced on December 16, 1984. Two examples of what happened to retailers are presented above. In the first example, the retailer placed orders for juniors corduroy jumpers in October 1983, at a time when there were no quota charges on these goods. As a result of the call, additional quota charges of $6.00 per garment were added to the costs. The additional charge was almost as much as the original first costs quoted by the manufacturer. The retailer cancelled some of the original order and shifted the remainder to Bankok, where the retailer gambled on an unproven manufacturer's ability to meet quality and deadline.

In the second example, the retailer placed orders in October 1983 for 874 dozen girls corduroy jumpers at a first cost of $39,000. Jumpers were for fall 1984 selling season. As a result of the U.S. call on the category the order was cancelled. The retailer sought replacements from domestic sources at prices 88 to 120 percent higher than the import prices, and with unacceptable delivery dates. As a result the jumpers were never replaced.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 6-003

Consumer Effects Statement

Category: 640 Country: Korea/Taiwan/Indonesia

Fiber: Synthetic Description: Broadcloth Shirts (Boys)

COSTS PER UNIT

Fall 1983					Fall 1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Korea	3.00	4.21			Korea	3.73	5.03		
Korea	1.98	2.80			Taiwan	2.66	3.62		
Korea	2.23-2.60				Indonesia	2.41-3.05			

COMMENTS: Three separate examples of what happens when prices increase are presented here. In the first case, the retailer faced a 19 percent increase as a result of increased pressure on quotas. In the second case, the retailer was forced by the higher 1984 Korean prices to move production to Taiwan. In this example landed costs actually increased by 29 percent.

In the final example, the retailer placed orders in Korea in October 1983 for boys woven dress shirts which were intended to be sold during the Holiday, 1984 season. Orders for 5,000 dozen were placed. In January, the retailer was advised by the manufacturer that the order could not be delivered because the manufacturer did not have enough quota available at the retailer's initial price point. The retailer went in search of substitute shirts in Tailand, Singapore and Indonesia — countries where the retailer had little prior experience. The order was finally placed for 5,000 dozen in Indonesia, at an average first cost increase of 13 percent. In May, the U.S. "called" this category, placing a new restriction on its export. The chances are that this retailer will not receive these shirts even though he has opened up a guaranteed letter of credit, and essentially paid the manufacturer for the goods. Replacing these shirts with domestically produced garments is impossible at this late date — moreover the cost of domestically produced garments with equivalent detail and fabric would be much higher. The retailer estimates that for the price he paid in Indonesia, he could not even get a basic shirt made in the U.S.

FC= FIRST COST including quota costs
LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.
QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.
DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

HIGHER PRODUCT PRICES

Case No: 6-001

Consumer Effects Statement

Category: 648 — Country: Taiwan/Singapore

Fiber: Synthetic — Description: Shorts (jrs/miss/girls/infants)

COSTS PER UNIT

1983					1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Taiwan	3.10-				Taiwan	4.10-			
(juniors)	3.50					4.80			
(misses)	3.20-					3.70-			
	3.45					4.20			
(girls)	2.75-					3.54			
	2.91					3.70			
Sing.	1.50				Sing.	2.12			

COMMENTS: Taiwan prices increased by 32 to 37 percent for junior shorts, by 16 to 22 percent for misses shorts, and 27 to 29 percent for girls shorts in just one year. Increases in this category were not limited to Taiwan. Similar items purchased in Singapore also increased in price by 41 percent. These increases are a result of the "floor" prices which governments are now charging. With quota levels so tight, the governments of exporting countries are attempting to get the most dollar amount for the quota level available.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 5-001

Consumer Effects Statement

Category: 646	Country: Korea
Fiber: Synthetic	Description: Sweaters (girls)

COSTS PER UNIT

1983					1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Korea	1.79				Korea	3.08			

COMMENTS: Price increase of 72 percent due to Korea's "floor price" system. Floor prices are a result of exporting countries attempting to "trade up" into higher priced lines of merchandise. Trading up is common when goods are governed by quotas. Because exporters cannot increase the number of units they may sell, they attempt to maximize profits by increasing prices.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 2-003

Consumer Effects Statement

Category:

Country: Singapore

Fiber: Synthetic

Description: Roll cuff top (kids)

COSTS PER UNIT

1983					1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Sing.	1.52- 1.63				Sing.	2.03 2.16			

COMMENTS: Prices are up by 33 percent. This represents and increase at retail of between $2.00 - $3.00 per garment, and is due to "trading up."

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 4-004

Consumer Effects Statement

Category:	Country: Hong Kong
Fiber:	Description: Womens Jacket

COSTS PER UNIT

Fall 1983					Fall 1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
HK	6.00	8.50			HK	6.90	10.60		

COMMENTS: Price increased by 25 percent directly as a result of tighter quotas. The increase in landed cost will translate into a retail increase of about $4.00. Quotes for Fall '85 are already much higher (8.00 F.C./ 11.50 L.C.).

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 1-002

Consumer Effects Statement

Category: 345	Country: Hong Kong
Fiber: Cotton	Description: Sweaters (juniors)

COSTS PER UNIT

August 1983					1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
H. K.			3.50 - 4.00		H. K.	12.00		5.00	

COMMENTS: The 1984 prices quoted to this retailer included a charge for quota licenses of $5.00 per sweater. This represented a 25 percent increase in the cost of quota in just one year. Moreover, the $5.00 quota charge is 41 percent of the first costs of the sweaters in this example. This charge is completely intangible — it is unrelated to the costs of manufacturing these garments and is the direct result of the textile and apparel import system.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 1-001

Consumer Effects Statement

Category: 639	Country: Korea
Fiber: Man-made	Description: Knit blouses (jrs./miss.)

COSTS PER UNIT

1983					1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Korea	1.35- 2.70				Korea	3.00			

COMMENTS: 47 percent price increase in one year, as a result of the Korean "floor price" system.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 5-003

Consumer Effects Statement

Category: 340	Country: Hong Kong
Fiber: Cotton	Description: Woven sportshirt (Boys)

COSTS PER UNIT

1983					1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
HK	4.30		.50		HK	6.90		2.00	

COMMENTS: As a result of the 75 percent increase in quota charges the first costs of these garments increased by 60 percent in one year.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 5-004

Consumer Effects Statement

Category: 347	Country: Hong Kong
Fiber: Cotton	Description: Pants (boys)

COSTS PER UNIT

1983					1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
HK	5.55		.20		HK	8.30		2.00	

COMMENTS: As a result of the 900 percent increase in quota charges, the first costs of this merchandise increased by 50 percent from one year to the next.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 6-005

Consumer Effects Statement

Category: 645	Country: Korea
Fiber: Acrylic	Description: Sweaters (boys)

COSTS PER UNIT

Fall 1983					Fall 1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Korea	2.75	4.83			Korea	3.71	6.25		
Korea	3.33	4.80			Taiwan	3.70	5.20		

COMMENTS: Two retailers responded differently to the increases in prices in the Korean market for boys sweaters. The first retailer purchased sweaters at a 29 percent increase in landed costs. The second retailer moved purchases to Taiwan at an increase in landed costs of 8 percent.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 3-002

Consumer Effects Statement

Category: Country: Hong Kong/China

Fiber: Description: Baseball jacket (boys)

COSTS PER UNIT

1984 delivery					1985 delivery				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
China	5.90			11.75	China	6.40			
					H.K.	7.95		1.82	

COMMENTS: Spring '84 program booked in China because of price. Although the Spring 85 price from China is better than from Hong Kong, delivery was not available until 1/1/85 — too late for this retailer's spring selling season. The retailer placed the orders in Hong Kong which resulted in a 35 percent price increase. 23 percent of the first costs were for quota charges alone. The domestically produced jacket does not include the same knit rib inset at the armhole which is available on the import.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 5-005

Consumer Effects Statement

Category:	Country: Hong Kong
Fiber:	Description: Walking shorts (mens)

COSTS PER UNIT

1983					1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
HK	4.82		.96		HK	5.84		2.50	

COMMENTS: Because of a 160 percent increase in quota charges for this category the price of these items increased by 21 percent.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

DISAPPEARANCE OF LOWER PRICED MERCHANDISE

Case No: 1-004

Consumer Effects Statement

Category: 341 Country: Hong Kong

Fiber: Polyester Description: Budget woven blouses

COSTS PER UNIT

1983 purchases					1984 quotes				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
H.K.	3.60 - 3.80	4.43-4.75		6.25	H.K.	4.00-4.70	5.45-5.80		

COMMENTS: The blouses in this example were women's "buget" or basic short sleeves blouses. The price increases of 11 to 24 percent put this product out of reach for the targeted "budget" customer, who is typically a lower-income individual. The retailer in this example is thinking about shifting to Sri Lanka for supply where the level of restraint on this category is very tight (507,261 dozen as opposed to the Hong Kong quota level of 827,977 dozen.) The result may be that in spring 1985 these blouses simply will not be available for this retailer's budget customers.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 2-001

Consumer Effects Statement

Category: 348	Country: Hong Kong
Fiber: Cotton	Description: Shorts (juniors)

COSTS PER UNIT

1983					1984 quotes				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
H.K.	3.80	4.69		5.70	H.K.	4.80		2.45	

COMMENTS: The shorts in this example were basic, unadorned garments. In 1984, when the retailer returned to the Hong Kong manufacturer to repeat a sucessful 1983 program, the retailer was advised that, due to restrictions on this category, the cheapest price for shorts would be $4.80 per unit — a 26 percent increase over the previous year. (Note that in this example quota charges account for over 50 percent of the garment's first costs in 1984.) Because of this increase, the retailer dropped the basic short program and substituted a much more detailed garment containing pockets and zippers in order to justify the price. This retailer's basic customer will not find basic shorts at this store next spring. As a result of tightened trade restrictions an entire line of garments have disappeared from the selling shelves.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 6-004

Consumer Effects Statement

Category: 348 — **Country:** China/ Sri Lanka

Fiber: Cotton — **Description:** pants and shorts (girls)

COSTS PER UNIT

Spring 84					Spring 85				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
China (shorts)	1.96	3.32			Sri Lanka (shorts)	2.13	3.55		
China (pants)	5.17				China (pants)	6.21			

COMMENTS: As a result of foreign manufacturers "trading up" retailers have seen dramatic price increases, especially for pants and shorts from China. In the first example, the retailer was forced to move his program from China to Sri Lanka in order to maintain his price point. The retailer is gambling on the quality of the merchandise which will ultimately be shipped. In the second example, prices for girls basic cotton pants have soard as a result of the the Chinese system of "floor prices." In 1983 the pants in this example had a first cost of only $3.67. In Spring 1984 the same pants had a first cost of $5.17 — up 41 percent. The prices which China is quoting for 1985 are up an additional 21 percent.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 3-003

Consumer Effects Statement

Category:

Country: Hong Kong

Fiber:

Description: Twill pant (boys)

COSTS PER UNIT

1984 delivery					1985 delivery				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
H.K.	4.30		.50	6.90- 7.90	H.K.	5.80		1.50	

COMMENTS: The quota charges for a basic, pull-on pant with no piping and little detail has tripled as a result of the U.S. import program. The quota charges now represent 26 percent of the first costs of the garment. The 35 percent total increase in price is several price points higher than this retailer wanted for this kind of basic garment.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

POORER QUALITY MERCHANDISE

Case No: 3-004

Consumer Effects Statement

Category:

Country: China/U.S./Mexico

Fiber:

Description: Boys 8/16 camp short

COSTS PER UNIT

1983					1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
China		2.02			US/Mex (807)				3.85

COMMENTS: As a result of China's system of "floor prices," the retailer was forced to find an alternate source for his camp shorts. The floor price is much higher than the retailer would have accepted for the production of these shorts, and is the direct result of the exporting country attempting to "trade up" into higher priced lines of merchandise. The retailer purchased camp shorts from a domestic manufacturer who had the garments assembled in Mexico using U.S. piecegoods. The 1984 first costs of the shorts were 90 percent higher, and the domestic shorts were of lesser quality. For instance the Chinese shorts had 4 pockets, a swivel key holder and a higher number of stitches per inch. The U.S./Mexican shorts had only 2 pockets, a 1 piece key holder and relatively poor sewing quality. In addition the U.S. vendor encountered production problems because the pockets which the retailer wanted on the shorts were more complicated than the manufacturer had been making. As a result the vendor would not ship until the end of May — extremely late for the intended selling season.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 4-001

Consumer Effects Statement

Category:	Country: Taiwan
Fiber:	Description: Merona type pant (boys)

COSTS PER UNIT

Spring 1983					Spring 1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Taiwan	3.75	5.06			Taiwan	4.50	6.13		

COMMENTS: The prices quoted to this retailer for spring 1985 are 21 percent higher. The retailer decided not to place orders with the Taiwan vendor, and instead ordered merchandise from Malaysia at approximately the same costs as the 1983 program. However, the retailer is gambling that the new producer will be able to provide comparable quality and acceptable delivery dates, and that the merchandise placed in the smaller, less developed country will not be embargoed.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 4-002

Consumer Effects Statement

Category: Country: Hong Kong

Fiber: Description: Jacket (girls 3/6x)

COSTS PER UNIT

Spring, 84					Spring 85				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
H. K.	4.60	6.67			Sri Lanka	5.2	6.80		
					Malaysia	5.15	6.81		

COMMENTS: Although the Hong Kong manufacturer quoted a price 21 percent higher than the previous year, the manufacturer was still unwilling to produce the jackets in children's sizes, principally because quota for this category is at a premium. The retailer shifted to Sri Lanka and Malaysia at an average price increase of less than 2 percent. However, the retailer is concerned that in order to hold price points, he will lose quality.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 4-005

Consumer Effects Statement

Category:	Country: Taipei/Indonesia
Fiber:	Description: Yarn died blouse (girls)

COSTS PER UNIT

Fall 83					Fall 84				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Taipei	2.62	4.45			Indon.	2.75	4.67		

COMMENTS: Entire blouse program out of Taipei was no longer feasible because the manufacturer was unable to get quota licenses at retailer's price points. The program was shifted to Indonesia at a modest price increase. However the indonesian garments are of much poorer quality, with flat pack instead of more expensive stand pack, and with other details missing.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 5-002

Consumer Effects Statement

Category:
Country: Korea/Singapore
Fiber: Synthetic
Description: Knits (girls)

COSTS PER UNIT

1983					1984				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Korea	1.79				Korean vendor would not repeat program				
					Singa.	2.73			

COMMENTS: The retailer was forced to switch suppliers from Korea to Singapore at a price increase of 53 percent. The retailer is gambling on the delivery dates and the quality of the new supplier.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

Case No: 4-003

Consumer Effects Statement

Category: Country: see below

Fiber: Description: Mens quilted shirts

COSTS PER UNIT

Fall 83					Fall 84				
Country	FC	LC	Quota	Domestic	Country	FC	LC	Quota	Domestic
Taiwan	6.66	6.66			Taiwan	5.25	7.00		
China	ave.				China	ave	ave		
Phillippines					Haiti				
					Romania				
					Pakistan				

COMMENTS: Because of limited quota, retailer was forced to source merchandise in a variety of lesser developed, emerging source countries. Retailer is concerned that quality will not be maintained.

FC= FIRST COST including quota costs

LC= LANDED COST, including: cost of merchandise, quota costs, inland transportation in foreign country, duty, cost of entry (brokerage fee), ocean freight, bank processing.

QUOTA = the costs associated with purchasing the "right" to export products from the foreign country. In Hong Kong, quota is actually bought and sold by the producers of cloth and clothing.

DOMESTIC = The actual or quoted price of a U.S. manufacturer to produce identical merchandise.

APPENDIX A

HONG KONG QUOTA CHARGES

QUOTA CHARGES IN HONG KONG
SPRING, FALL, AND HOLIDAY 1983 vs. 1984

in Hong Kong Dollars

Quota Category # and Description		January (HOLIDAY)			April (SPRING)			October (FALL)		
		1983	1984	% Change	1983	1984	% Change	1983	1984	% Change
333/4	Cotton Coats M, B	0	0	-	0	0	-	0	0	-
335	Cotton Coats W,G,I	180	290	+61	220	340	+55	88	*	n/a
338/9	Cotton Knit Shirt/Blouse(all)	250	110	(56)	90	113	+26	100	*	n/a
340	Cotton Woven Shorts M,B,	0	0	-	0	0	-	0	*	-
342	Cotton Skirts	26	185	+611	36	190	+427	316	*	-
345	Cotton Sweaters	230	400	+74	220	348	+58	600	*	-
347	Cotton Trousers M,B,	74	190	+116	162	214	+32	220	*	-
348	Cotton Trousers W,G,I									
435	Wool Coats W,G,I	n/a	800	+800	n/a	480	+480	700	*	-
436	Wool Dresses	32	780	+234	20	510	+2450	300	*	-
438	Wool Knit Shirt/Blouse	15	730	+4767	10	150	+1400	20	*	-
442	Wool Skirts	Susp.	450	+450	Susp.	430	+430	Susp.	*	-
444	Wool Suits W,G,I	Susp.	550	+550	Susp.	1200	+1200	Susp.	*	-
445/6	Wool Sweaters	170	450	+164	270	380	+407	900	*	-
448	Wool Trousers W,G,I	n/a	300	+300	n/a	360	+360	Susp.	*	-
633/4	M M Coats M.B	0	0	-	0	0	-	0	*	-
635	M M Coats W,G,I	12.5	110	+780	20	122	+510	150	*	-
638/9	M M Knit Shirt/Blouse(all)	3.5	70	+1900	5	53	+960	80	*	-
640	M M Woven Shirts M,B,	0	0	-	0	0	-	0	*	-
641	M M Woven Blouses	45	220	+388	90	190	+111	330	*	-
642	M M Skirts	0	200	+200	Susp.	150	+150	Susp.	*	-
645/6	M M Sweaters	22	200	+809	55	153	+178	270	*	-
648	M M Trousers W,G,I	10	n/a	n/a	25	n/a	n/a	80	*	-

W,G,I is Womens, Girls, Infants
M,B is Mens, Boys
* October '84 prices not yet available.

HONG KONG QUOTA COSTS

Category	July 83	Aug 83	Sep 83	Oct 83	Dec 83	Jan 84	Feb 84	Mar 84	Apr 84	May 84	June 84	July 84
333/334						22.58	34.64	29.19	33.31	38.40		
335	31.29	23.61	19.58	10.15	26.90*	30.79	46.19	54.01	43.94	46.08		
336						43.62	51.32	68.80	65.33	57.60		
338/9	17.96	17.06	15.61	11.07	12.81	12.19	14.11	18.65	14.86	14.98		
340	9.12	7.78	10.72	10.61	12.81	13.86	17.71	23.15	21.65	20.10		
341	12.35	14.06	16.93	21.10	13.58	15.40	17.32	20.58	17.42	17.28		
342	20.06	28.39	30.16	37.82	23.06	25.66	30.79	27.01	24.72	19.20		
345						46.19	57.74	57.87	44.96	40.96		
347						21.30	21.68	24.43	27.80	27.78		
348	31.99	37.26	43.39	23.64	21.14	23.09	23.09	25.72	27.80	27.78		
435						71.85	100.07	104.17	64.05	44.80		
436						100.07	110.98	115.74	76.86	44.80		
431						25.66	48.75	45.01				
438	4.35	3.14	2.38	3.00		20.91	26.04	43.85	19.60	11.65		
442						51.32	59.02	64.30				
443								N/A		N/A		
444						64.15	76.98	128.60		N/A		
445/6	77.59	113.70	93.01	100.66	118.24	51.32	57.74	69.44	49.06	37.12		
448						35.92	51.32	61.73	51.24	42.24		
633/4								24.43	19.34	24.32		
635						15.40	19.25	21.86	16.01	16.26		
636						25.66	30.79	29.58	26.90	19.20		
638/9	6.31	7.92	7.81	9.34	10.38	7.70	10.91	9.65	7.17	7.17		
640						6.54	6.80	27.13	18.32	18.82		
641	28.76	30.85	33.47	40.12	21.78	11.55	25.66	29.58		19.97		
642						12.83	29.51	29.58	26.90	19.20		
644												
645/6						32.08	21.81	24.34	19.98	12.16		
648	6.31	8.46	10.72	11.07	7.94	10.26	11.60	12.22	8.58	8.45		

* November = .1282

ESTIMATED HONG KONG QUOTA CHARGES BASED ON 1983 TRADE LEVELS

Category	1983 Trade	January 1984 Quota Cost	Estimated Quota Costs (Based on January 1984 Quota Charges)
333/4 - Cotton Coats, M&B	218,953 dz.	22	$4,816,966
335 - Cotton Coats, WG&I	245,136 dz.	30	$7,354,080
336 - Cotton Dresses	165,216 dz.	43	$7,104,288
338/9 - Cotton Knit Shirts & Blouses, M&B, WG&I	3,757,257 dz.	12	$45,087,084
340 - Cotton Woven Shirts, M&B	2,500,378 dz.	14	$35,005,292
342 - Cotton Skirts	477,883 dz.	25	$11,947,075
345 - Cotton Sweaters	361,178 dz.	45	$16,253,010
347 - Cotton Trousers, M&B	2,046,559 dz.	21	$42,977,739
348 - Cotton Trousers, WG&I	4,753,441 dz.	23	$109,329,143
		TOTAL QUOTA COST FOR COTTON APPAREL IMPORTS --	$276,874,677

ESTIMATED HONG KONG QUOTA CHARGES BASED ON 1983 TRADE LEVELS

Category	1983 Trade	January 1984 Quota Cost	Estimated Quota Costs (Based on January 1984 Quota Charges)
435 - Wool Coats, WG&I	53,082 dz.	70	$3,715,740
436 - Wool Dresses	63,005 dz.	98	$6,174,490
438 - Wool Knit Shirts & Blouses	545,411 dz.	20	$10,908,220
442 - Wool Skirts	61,237 dz.	50	$3,061,850
444 - Wool Suits, WG&I	12,779 dz.	63	$805,077
445/6 - Wool Sweaters	1,290,670 dz.	50	$64,533,500
448 - Wool Trousers, WG&I	42,516 dz.	35	$1,488,060
		TOTAL QUOTA COST FOR WOOL APPAREL IMPORTS —	$90,686,937

ESTIMATED HONG KONG QUOTA CHARGES BASED ON 1983 TRADE LEVELS

Category	1983 Trade	January 1984 Quota Cost	Estimated Quota Costs (Based on January 1984 Quota Charges)
633/4 - M- M Coats, M&B	374,060 dz.	24	$8,977,440
635 - M- M Coats, WG&I	573,224 dz.	15	$8,598,360
636 - M- M Dresses	215,656 dz.	25	$5,391,400
638/9 - M- M Knit Shirts & Blouses	4,538,244 dz.	8	$36,305,952
640 - M- M Woven Shirts, M&B	623,089 dz.	6	$3,738,534
641 - M- M Woven Blouses	853,632 dz.	24	$20,487,168
642 - M- M Skirts	140,102 dz.	13	$1,821,326
645/6 - M- M Sweaters	1,309,655 dz.	31	$40,599,305
648 - M- M Trousers, WG&I	918,965 dz.	10	$9,189,650
		TOTAL QUOTA COST FOR M-MF APPAREL IMPORTS —	$135,109,135
		TOTAL QUOTA COST ALL APPAREL IMPORTS FROM HONG KONG —	$502,670,749

THE COMMISSIONER OF CUSTOMS

WASHINGTON, D.C.

JUL 26 1984

Dear Senator Danforth:

Knowing of your keen personal interest in combatting fraud in textile importations, I am writing to update you on what the U.S. Customs Service is doing and what we have accomplished so far in this area. When I became Commissioner, I made law enforcement the number one priority of the Customs Service. About 18 months ago, we started Operation Tripwire, our commercial fraud program. We also began a reform of Customs commercial operations, and we are bringing our automated systems into the modern world through comprehensive integration and expansion. All of these efforts are contributing to our anti-fraud campaign.

As you know, the United States textile and apparel industry is one of our Nation's largest industrial employers. The Administration has identified unrestrained imports of textiles and wearing apparel as a critical threat to our domestic industry. The United States regulates the growth in apparel and textile importations through the Multi-Fiber Arrangements and negotiated quotas. The intentional circumvention of these trade controls is the primary target of Customs textile fraud initiatives. Case referrals and intelligence gathering clearly indicate that the problem of textile fraud is one which deserves a continued concentration of Customs enforcement efforts. Widespread conspiracies exist to circumvent quota and other import restrictions. The problems include counterfeit visas, fraudulent export documents, phony copyrights, bogus trademarks, undervaluation, understatement of weights and quantities, and transshipment of quota merchandise from "tight" quota countries to evade quota restrictions. The Customs Service has always treated these importations seriously and with caution. Because of quota sensitivity and the relatively high rates of duty on most of this merchandise, significant sampling and other special handling has occurred for many years. However, Operation Tripwire has formalized, defined, and escalated fraud detection and prosecution of violators in textile importations.

THE COMMERCIAL FRAUD INVESTIGATIONS CENTER AND FIELD FRAUD TEAMS

In February 1983, Customs established the Customs Fraud Investigations Center (CFIC) at our Headquarters office in Washington, D.C. as the focus for Operation Tripwire. We also established 41 special fraud teams, including special textile teams, composed of 235 people in ports throughout the United States. We established two special task forces and detailed a senior special agent to Hong Kong assigned to textiles exclusively. These resources are in addition to our normal cadre of professional employees processing high-risk merchandise as part of their regular assignments. In order to prevent the frustration of the multilateral and bilateral agreements to which the United States is a party, the Textile Fraud Program was established as a major enforcement target within the Center.

The CFIC and its correlating fraud teams are truly unique, because they are utilizing the inter-disciplinary talents of special agents, import specialists, inspectors, regulatory auditors, attorneys, and professional laboratory personnel--virtually every operational discipline in Customs. The primary mission of CFIC is to provide field units with the best possible support in their efforts to seek out and prosecute, civilly or criminally, violators.

As part of the textile program, CFIC personnel have identified and disseminated primary source countries and manufacturers, transshipment countries, probable ports of entry, complex circumvention schemes, and other intelligence indicating trends in apparel and textile fraud. For example, the Center recently completed a 22 Asian nation study of textile fraud. This document contains much valuable information, including production capabilities, quota availability, and local government control efforts.

This kind of information, combined with other intelligence, is of enormous value to our field staff, and it has other significant uses. For example, a Textile Fraud Conference was held in June 1984 between the United States and the European Economic Community (EEC). Unlike the 1980 conference, which was quite general and diplomatic in nature, this conference was enforcement-oriented and sought to establish possible remedies to the textile fraud problem. As a result of shared intelligence, participants at the conference determined that the U.S. and the EEC are plagued with fraudulent importations from the same sources, and an agreement was reached to exchange lists of proven violators.

The Customs Fraud Investigations Center coordinates fraud related activities between headquarters and the field and among the numerous offices in Headquarters involved in the program. If legal or audit assistance is needed quickly in the field, CFIC expedites the aid and ensures all necessary parties are advised. Through its automated tracking system, CFIC ensures appropriate investigation and prosecution takes place in a timely manner. CFIC also instituted a speaker series to provide training to Center personnel and, via videotape, to field fraud teams. Speakers visit the Center to discuss such topics as white collar crime, civil vs criminal prosecution, and the use of the Customs summons.

CURRENT SCHEMES IN TEXTILE FRAUD

As import restraints and cooperation between countries increase and effective enforcement becomes a reality, ever more sophisticated schemes for circumvention of import requirements develop. Current intelligence data, examination of shipments, and document scrutiny have established that importers are using the following methods to fraudulently import textiles and apparel:

1. Transshipment: Textile and apparel products are frequently marked with a false country of origin and then transshipped through a country which has a liberal quota or no quota, making ~~it~~ appear that the merchandise was produced in the intermediary country.

2. Misclassification/Misdescription: Garments are frequently misdescribed on invoices. Often, there are feeble attempts to make temporary modifications on merchandise, when it is apparent the merchandise will not be sold as entered, to get a more available quota or a lower rate of duty or both.

3. Understatement of Quantities/Weights: The declaration of false quantities to circumvent quota/visa restrictions continues to be a common area of textile fraud. This results not only in less duty paid but in misrepresentations in the actual amounts imported under bilateral agreements.

4. Split Shipments: One way of circumventing quota restrictions is to split shipments into small quantities, valued at $250 or less and enter the merchandise by means of informal entries, thereby avoiding the requirement for a valid debited visa.

5. Counterfeiting Copyrights and Trademarks: As in other [illegible] piratical copies of copyrighted and trademarked apparel [illegible] to flood the U.S. market. Aside from the competition these importations cause to the owners of the copyrights and trademarks, the products are usually inferior and damages the legitimate owner's name.

6. Undervaluation: Though not as common as the other methods of textile fraud, this illegal practice is still being used to minimize the payment of duty.

Of the 406 major cases currently being tracked, 25 percent are in the textile area. Priority is given to investigation of cases Customs terms "Class I". A Class I case is generally one where there is a potential loss of revenue (duty) of $50,000 or more, or where the case may be serious enough to prosecute criminally. This classification may also include non-revenue cases involving a serious violation of trade laws. For example, importing counterfeit wearing apparel may result in no loss of revenue to Customs, but may justify criminal prosecution.

Of course not all cases are Class I, but Customs is striving to detect all illegalities, no matter how small. Aside from the overall protection this affords U.S. industry and the public welfare, sometimes a number of relatively small instances of circumvention can result in uncovering trends that may constitute an industry-wide problem. Such is the case with polyester sport caps. The caps, mostly from Hong Kong, Taiwan, and Pakistan, are subject to quota based on weight. The visa weights have been found to have been understated by as much as 50%. CFIC is monitoring the situation and has advised Customs field officers to be on the alert. In addition, alerts have been circulated through the Office of Enforcement's Intelligence Division, the Customs Information Exchange, and other vehicles Customs uses to prevent "port shopping." Numerous seizures have been made at more than 15 different ports. The Taiwan Hat Exporters Association has expressed concern and has furnished a list of Taiwanese exporters who are potential violators. Investigation continues and the caps are now routinely examined and weighed.

Enclosed with this letter are samples of various seizures of apparel and textile shipments since January 1, 1984. The list demonstrates the variety and complexity of the methods used to circumvent import restrictions on these articles.

METHODS TO COMBAT APPAREL AND TEXTILE FRAUD

Intelligence indicates Asia is the largest source of fraudulent importations. In 88% of the incidents of discovered fraudulent apparel and textile importations, the country of origin has been Hong Kong (45%), the People's Republic of China (30%), and Taiwan (13%). European countries join Asian ones as serious offenders in the area of transshipment. Detection efforts emphasize attention to importations from these areas.

Special Task Forces

Special inter-disciplinary textile task forces were established in New York and Los Angeles to intensify textile enforcement in these high-volume, high-risk areas. The New York task force has been so successful that it has been extended to the end of the fiscal year. Through June 30, 1984, its activities have resulted in 90 seizures and one arrest. The Los Angeles task force made 19 seizures and initiated investigation of 30 cases, including four referrals for criminal prosecution. While the formal task force concluded operations after 90 days in Los Angeles, the techniques discovered are still being used and cases initiated will be followed to conclusion.

Notwithstanding the success of the task forces themselves, residual benefits have accrued in increased awareness and cooperation among Customs disciplines. Such task forces are an important enforcement tool and will continue to be used as necessary.

Automated Systems and Selectivity

We are making important advances in our ability to target selected merchandise for intensive cargo and document examination. ACCEPT, our current system for identifying shipments requiring thorough examination prior to release, is operational in an automated mode in 22 ports, with an additional 38 ports using ACCEPT in a manual mode. This system ensures that textile importations receive appropriate attention at all times.

Most textile and apparel shipments subject to quota and visa restrictions require an intense document review by an import specialist and intensive examination and sampling prior to release of the merchandise. ACCEPT allows such criteria to be quickly established and changed at both the national and local level.

We are in the process of enhancing and integrating ACCEPT and of building a sophisticated, automated selectivity system for entry processing as part of our Automated Commercial System (ACS). This will free our professional resources to concentrate even more intensely on our enforcement mission. Phase I of this system is already implemented and Phase II is currently in development.

In addition to the enforcement data bases already established in CPIC, an automated Fines, Penalties and Forfeitures system is being developed, also as part of ACS. When fully implemented, this module will improve our ability to track penalty and seizure cases, identify repeat offenders, and ensure equitable treatment of violators. Elements of this module are currently being tested in Houston and Chicago.

For several years Customs has monitored and enforced a large number of textile import quotas through our automated import quota system. These activities are conducted in conjunction with, and under the guidance of, the Commerce Department's Office of Textiles, Committee on the Implementation of Textile Agreements (CITA). Customs and Commerce have held constant interagency meetings, communicated in writing and orally on a daily basis, and sent representatives to high-level international conferences dealing with implementation of the Textile Bilateral Agreements.

Customs has established an Automated Visa Verification Program with Taiwan, whereby visas are verified via satellite by the Taiwanese Government, enabling Customs to identify counterfeit visas prior to release of the merchandise. We are investigating the feasibility of establishing similar systems with Hong Kong and Korea. Customs has also added the requirement for the textile visa number on the revised formal entry, Customs Form 7501, for textile enforcement purposes.

Examination at Arrival - In-bond

When the ultimate destination of merchandise is other than the first U.S. port of arrival and the importer wishes to enter (or export) the shipment at the final U.S. port, the law allows that merchandise to travel via Customs bonded carrier to its final destination. Historically, these "in-bond" movements have merely been controlled by Customs to ensure that they are not diverted into the commerce. No invoice and only the most basic paperwork was required. In the near future, Customs plans to implement a program to perform any necessary examination of textile and apparel shipments at the first U.S. port of arrival. To facilitate these examinations, an invoice with a tariff classification, rate of duty, required visa and other information necessary for ACCEPT processing will be required.

Shipments found in violation of quota, visa, copyright, trademark or other requirements will be detained and/or seized at the first port. Shipments found to be in compliance will be allowed to move forward in-bond. The invoice with the inspector's findings will travel with the merchandise to the destination port where entry, subsequent examination and other processing prior to release occurs. The purpose of this program is to detect circumvention efforts as early as possible, and to ensure that the condition of the merchandise and of the attending invoices remains the same while the merchandise is travelling from port to port.

Penalties

Customs is aggressive in the prosecution of violators. Guidelines for mitigation of penalties have been tightened, and the criteria which constitutes a violator's "prior disclosure" of information in fraud investigations is more difficult to meet. In civil cases, Customs is settling serious violations for very large amounts of money. In one recent apparel fraud case, Customs has not mitigated the original penalty of over $1.5 million, even on a supplemental petition from the violator. And, it is now policy not to accept a second supplemental petition until the offender has complied with the original decision.

EXECUTIVE ORDER 12475 - TEXTILE IMPORT PROGRAM

On May 9, 1984, the President issued an Executive Order establishing policies and procedures for the implementation of an even more stringent textile import program. As mandated in the Order, Customs has established a Textile and Apparel Task Force consisting of members of the various Customs disciplines and representatives from the Office of Textiles, Department of Commerce. Task Force members have provided recommendations on implementing all the provisions of the Executive Order, received and discussed recommendations from CITA, and are drafting and reviewing new regulations to further toughen our enforcement posture on textiles.

A number of new regulations will be issued. Included are tighter rules of origin, definition of processes which must be performed to constitute "substantial transformation" of an article in a second country, and better control of articles changed or manipulated in a Customs bonded warehouse prior to withdrawal for consumption. More stringent provisions for such other procedures as the Customs rulings process are also being considered. Although Customs attorneys cannot ignore the law and foreign manufacturers are amazingly astute at fashioning garments and blending fabrics to legally get the most favorable quota treatment, Customs attorneys are attuned to upholding trade policy and spotting de facto quota evasion.

COOPERATION WITH INDUSTRY

In mid May, I met with several representatives of six different textile and apparel associations to brief them on our accomplishments deterring illegal importations into the U.S. commerce. Customs maintains an open door policy with the industry we are protecting. The assistance of the textile and apparel industry is crucial to our success. At formal and informal meetings with me and with members of my staff, industry representatives identify problems and provide leads that often have far reaching implications. Recently, at the request of the American Textile Manufacturing Institute, wool-blend fabrics from Italy were sampled under controlled procedures for a period of 60 days.

The Institute contended that there were marking discrepancies in both the wool content and in the amount of virgin vs recycled wool contained in the fabric. While some samples are still under analysis, our laboratory personnel have advised that there are indeed significant problems in this area. The national examination and sampling criteria in ACCEPT have been extended indefinitely to counteract the fraud.

Another area where the industry has been critical to our success is in the detection of counterfeit and piratical trademarked and copyrighted articles. The industry has provided samples of the genuine article and training on how to detect bogus copies. Representatives from the Anti-Counterfeiting Coalition participated in the production of a film designed to heighten awareness of the huge problem counterfeiting has become.

ADDITIONAL MANPOWER IN TEXTILE FRAUD ENFORCEMENT EFFORTS

On July 25, testifying before the Oversight & Investigations Subcommittee of the House Energy & Commerce Committee. I announced that the Customs Service will add 64 new positions to textile fraud efforts as a part of Operation Tripwire.

At first, this special enforcement program was too new for us to make an intelligent deployment of additional people. I am confident that today as a result of 18 months of activities, we know where these people will be most effective, and we are taking action to move them into place.

We will add 31 Special Agents assigned to investigate fraud both domestic and foreign, 25 import specialists, at various locations throughout the United States, 2 attorneys, 1 economist assigned to the commercial fraud center in Customs Headquarters and 5 laboratory technicians.

Enforcement is Customs top priority, and we will continue in our efforts to ease the burden fraudulent importations cause American industry through more effective enforcement of our nation's trade and tariff laws. If you have any questions about our program or would like to discuss this issue further, please let me know.

Yours faithfully,

(Signed) William von Raab

The Honorable
John C. Danforth
Senate Textile Caucus
United States Senate
Washington, D.C. 20510

Enclosure

PARTIAL LIST OF VARIOUS TYPES OF TEXTILE RELATED SEIZURES

JANUARY 1984 - PRESENT

Seized January 9, 1984 - 400 dozen men's cotton jeans - Hong Kong
Port Elizabeth, NJ Value - $67,767

The jeans were invoiced and entered as products of Israel. Examination revealed residue of a label originally sewn into the waistband, but subsequently cut out. Further examination found labels stating "Made in Hong Kong." 19 USC 1592

Seized January 24, 1984 - 1596 cartons wearing apparel - Taiwan
Miami, Fl Value - $153,117

The apparel was subject to quota and visa restraints. The importer had entered the shipments for exportation and then attempted to divert them to a domestic consignee. 19 USC 1592

Seized January 16, 1984 - 28,800 pieces towels - Taiwan
Los Angeles, CA Value - $86,400

4800 pieces had the logo "Super PAC-MAN", in violation of a registered copyright. These pieces were commingled with non-copyrighted articles. 19 CFR 133.42

Seized January 26, 1984 - 4125 dozen women's apparel - Taiwan
Los Angeles, CA Value - $19,770

The merchandise was invoiced as dresses. Examination revealed the merchandise was skirts and blouses, flimsily sewn together to use lower cost visa and larger quota. 19 USC 1592

Seized February 2, 1984 - 12,526 pieces wearing apparel - Hong Kong
Los Angeles, CA Value - $178,500

The shipment was invoiced as men's cotton swim trunks. Examination disclosed merchandise was shorts with flimsily constructed liners. The scheme was contrived to obtain a more readily available and lower priced visa. 19 USC 1592

SEIZURE HIGHLIGHTS

Seized May 17, 1984 - Newark, NJ	250 cartons ladies tops and bottoms - Taiwan Value - $106,149 The shipment was invoiced and entered as bodysuits. When examined, they were found to be tops and bottoms attached by a single stitch at the shoulders, easily torn apart. Construction of the garment made it impossible to put on without separating the pieces. Tops and bottoms are subject to quota/visa restrictions. 19 USC 1592
Seized May 24, 1984 - Newark, NJ	13,200 pieces children's jeans - Taiwan Value - $160,512 The fiber count on the invoice was linen 43%, rayon 39%, cotton 18%. Laboratory analysis showed cotton 56%, rayon 44%. The potential loss of revenue was $5,688 and the merchandise was misrepresented to avoid quota. 19 USC 1592
Seized June 8, 1984 - Los Angeles, CA	99,500 yards polyester fabric - Korea Value - $195,024 Fabric was transshipped through Japan and claimed as a product of Japan to avoid quota/visa restrictions pertaining to Korean fabric. 19 USC 1592
Seized June 13, 1984 - Los Angeles, CA	24,768 pieces headwear - Taiwan Value - $99,815 Caps had "Star in Motion," the five interlocking rings, and the words "Los Angeles 1984 Olympics". The importer was not an authorized licensee of a Customs registered trademark. 19 CFR 133.42, 17 USC 602, 17 USC 603
Seized June 22, 1984 - Chicago, IL	4572 ladies dresses - Pakistan Value - $160,020 The merchandise was entered as ladies 100% cotton handloomed dresses. The invoice contained a stamp "handloomed products of the cottage industry," a condition which exempts the merchandise from visa requirements. Visual examination and laboratory analysis revealed that the items were machine sewn. 19 USC 1592

SEIZURE HIGHLIGHTS

Seized February 15, 1984 - 134 boxes counterfeit "IZOD" shirts -
Miami, FL Thailand - Value $246,240

The shirts were marked "Made in France" 19 USC 133.42 (C)

Seized March 13, 1984 - 40 bales cotton dish towels
Charleston, SC Value - $32,000

The towels are visa items from Pakistan based upon weight. They were invoiced and visaed as 2975 pounds; the actual weight was 8398 pounds. 19 USC 1592

Seized April 17, 1984 - 55 cartons polyester hats - Hong Kong
Baltimore, MD Value - $23,580

Seized for understated weights for merchandise subject to a quota based on weight and for violation of the "Harley Davidson" trademark. 19 USC 1592, 19 USC 1526

N.B. 84 cartons of the same merchandise for the same importer were seized the following day, and two additional seizures were made in early May. See explanation of the weight problem on sports caps in narrative.

Seized April 30, 1984 - 100,000 yards fabric - Korea
Los Angeles, CA Value - $205,000

The merchandise was transshipped through Japan to avoid quota. The method of packing was common to Korea. The seal on the shipping container was changed to a Japanese seal and a new Japanese bill of lading was issued. 18 USC 542, 18 USC 545, 19 USC 1592

Seized May 14, 1984 - 3600 pieces wearing apparel - Korea
Newark, NJ Value - $90,435

The shipment was invoiced as separate pants and safari jackets. The pants and jackets were hung together as leisure suits which require a different visa. 19 USC 1592

SEIZURE HIGHLIGHTS

Seized July 2, 1984 **New York, NY**	3000 neckties - Hong Kong Value $21,150 The ties were invoiced as ornamented. Examination disclosed that they were non-ornamented, thus subject to quota and visa restrictions. 19 USC 1592

STATEMENT OF THE AMERICAN APPAREL MANUFACTURERS ASSOCIATION

The American Apparel Manufacturers Association appreciates the opportunity to join the other members of the American Fiber, Textile, Apparel Coalition in testifying on the state of the textile and apparel import control program. AAMA is the central trade association for the American apparel manufacturing industry. Our membership represents some 70 percent of U.S. capacity for apparel manufacturing and produces all lines of apparel.

We are appreciative of efforts this Administration has made to bring a measure of certainty and reasonableness to the import control program. The guidelines issued on December 16, 1983, represented an effort to bring under control at the earliest possible moment imports in uncontrolled categories from countries with which we have bilateral agreements and rapidly increasing imports from non-bilateral countries. Likewise, the new rules of origin published on August 3, 1984, were a sincere effort to cope with transshipments and quota avoidance.

Despite these efforts and the best of intentions, the Administration has fallen far short of its commitment to relate the growth of imports to the growth of the domestic market.

Imports of apparel in July of this year amounted to 532 million square yards equivalent, the largest single month in history. On an annual basis, current apparel imports equate to 5 billion yards for the year. Combined imports of textiles and apparel in July were 1 billion yards, also a record. At the current rate, imports of yarn, fabric and garments will total 10.3 billion yards in 1984. This figure is 39 percent higher than the then record high of 7.4 billion yards of imports in 1983.

Statement

It is interesting to compare the current import situation with the situation as it existed in 1973, the first year the Multifiber Arrangement was in effect. In 1973 the domestic industry produced 13.1 outerwear* garments for every American and imports provided 3.7 garments per person. In 1982, the domestic industry produced 12.8 garments per capita and imports provided another 6.2. While domestic production has not grown much if at all in 1983 and 1984, imports in 1983 provided 7.1 garments per person and, at the current rate, will provide 8.6 garments per person in 1984. Put another way, in 1973 imports provided Americans 22 percent of their outerwear garments. In 1984, imports will account for about 40 percent of those garments.

This import growth has resulted in the loss of 274,000 jobs in the apparel industry since peak employment of 1,438,000 in 1973. Many more jobs have been lost in the textile, fiber and other industries.

It becomes apparent that the Multifiber Arrangement and the bilateral agreements negotiated under it are not bringing order to our marketplace. Import penetration has virtually doubled during the life of the MFA and the domestic industry currently is suffering from an avalanche of imports that brings into question the very viability of the industry and the jobs of its 1.2 million workers.

The MFA expires in July 1986 and the first discussions on its renewal begin next month in Geneva. We hope that this Administration will consult closely with industry and labor and set about to negotiate a new MFA that will enable us to bring order to our marketplace and a reasonable degree of certainty to our business planning.

We are grateful to this Committee for its interest in this severe problem, and we would be pleased to respond to any questions the Committee may have.

*All suits, coats, dresses, shirts, knit and woven shirts, sweaters, trousers, slacks, and shorts.

HOUSE OF LLOYD, INC. 11901 Grandview Road · Grandview, Mo. 64030

UNITED STATES SENATE
COMMITTEE ON FINANCE
Subcommittee on International Trade
SD-219 Dirksen Senate Office Building

September 28, 1984

SUBJECT: The State of the U.S. Textile Industry
Tuesday, September 18, 1984

Thank you for allowing us to present our views concerning the U.S. Textile Industry and the new Country of Origin Rules issued by the U.S. Customs Service. Specifically we wish to address our comments to the new Intrim Customs Textile Regulations as published in the Federal Register on Friday, August 3, 1984.

I believe our Government owes the public an explanation why these rules were implemented without a public hearing in advance to determine the need for such regulations. We feel the U.S. Customs has failed to follow the federal rule making procedures required by law to give adequate notice and a period for comment to the effected parties. I applaud the Subcommittee for taking up this issue now, but believe action should have been taken before implementation of the rules.

It seems obvious that U.S. Customs is targeting a specific industry as frequent violators of the Country of Origin requirements. If this is the case then I suggest that Customs take a closer look at the specific violators instead of burdening the entire industry with additional paperwork. The new textile regulations seem clearly aimed at the garment industry. This is fairly evident to me because of a recent publication which was received from the Department of Treasury U.S. Customs Service dated September 6, 1984. This bulletin was presented in "Question & Answer" format regarding the new Customs Textile Regulations published

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in the Federal Register on August 3, 1984. All 8 pages of this document covered "Questions & Answers" as it relates to the garment industry. The bulletin reference number is 84-26 (ENT-1) P. A copy of this documentation is enclosed.

Our company, an importer of general toys and merchandise will suffer for the transgressions of a few importers who have violated quota restrictions by altering the Country of Origin. We do not import garments, however, we will still be burdened with the new textile regulations since we import many novelty type items that fall under Scheduled 3 Tariffs. These items include Christmas decorations, place mats and other household furnishings all of which are chiefly made of textile materials. Many of these items already require Form A Certificate of Origin and it seems redundant now for Customs to also ask for a Certificate stating that the products are wholly the growth or manufactured of the Country of Origin. Without a public hearing we can't be certain that Customs was actually targeting these specific items under their new textile regulations.

We import thousands of items each year. The documentation and reporting requirements are already mammoth and add a considerable amount of cost to the end product. In our shipments from the Orient we may have dozens of items mixed in one container and under past regulations, if all of our documentation was not in order, we were able to post bond for the shipment and allow it to be unloaded at our warehouse. Under the new textile regulations this bonding procedure will no longer be possible whenever a textile item is included in the container. This can mean that merchandise may have to be held in a foreign trade zone or the container may be stopped and held at the Port of Entry until proper documentation arrives. All this will add substantial cost to the product.

The present method of reporting procedures for items in Schedule 3 and

Schedule 7 make it very difficult for us to operate our business. Our company places orders in February. We order a textile product then and the supplier in Taiwan, for example, confirms the order and confirms that the quota assigned to the Country of Taiwan is available. We then publish this item in our catalog and begin to sell the product in June. When our product is delivered to us in July and August suddenly quota from that Country is not available and we have had to put that item into a bonded warehouse and wait until additional quota is available. Now we have an item in our catalog that;

1. We have to refund money to customers who bought it in June and July.
2. Is going to cost us a possible loss because of additional handling and storage.
3. It may go off sale in our catalog for the balance of the year because we can't get the product released or because we can't rebuy it with the quota used up in the country.

We can't afford to have these kinds of anxieties and disruptions in our flow of product to our customers. Our business is planned six and eight months in advance and it is important to have an uninterrupted flow of merchandise.

House of Lloyd is a company that sells products on a direct basis to consumers through party plan programs. We provide year round employment to 300 people in our offices and warehouse and over 6,000 people in our sales staff. Our peak season is June 1st to December 15th. During this period of time our warehouse and office staff swells to 1,200 people and our sales force grows to between 40 and 45,000 people. The United States Department of Labor compiled statistics in November of 1983 that only 700 people were employed in the Textile-Mill Product Industry in the State of Missouri. The sales and taxes that our company generates surpassed the Textile Industry in Missouri.

Please look at item number 61, Clown Shoebag (TSUS 386.1343) in the House of Lloyd catalog. This item is made of textile material and has a lot of hand decoration. It could not be bought in the United States at a low reasonable price so we could sell it for $9.90. Item number 106, Frosted PotPouri (TSUS 386.1343) is a frosted glass container. The only textile product is the lace which is used to wrap scented dried flowers and some pink ribbon. Item number 220, Candle Wreath (TSUS 386.1343) is another item that is a handcrafted product made of textile material and is labor intensive in its creation. We could not buy this item in the United States and sell it for $9.90. I've included catalogs from two of our sales divisions and listed all the various items that are effected by the new textile regulations. The catalog number listed by the item is shown to help you find each item in the catalog.

I think you can see from studying the items in these catalogs that;

1. The material content is insignificant in terms of the general textile market.
2. The items would be too expensive to make in the United States because of the high degree of labor cost. This would make the selling price unreasonable.

What happened to House of Lloyd when these regulations hit us in August?

1. Item number 179 Tissue House went into storage in the International Trade Zone. It was later released because of additional quota being made available. This caused us additional expense for paperwork, storage and transportation.

2. Several products were switched to PVC material (plastic). This is not desirable because our catalog usually states the material content of the product being sold. Customers are not always willing to accept material substitutes and refuse delivery of the product. We have been able to do this on several of our items, however, we are not happy about this because it reduces the quality of the products we sell and creates customer dissatisfaction.
3. We are sitting on pins and needles the balance of the year for additional items that will be received during October and November. There is no way we can predict when the quotas will run out again and we could be faced with loss of product on several items the balance of the year.

We would recommend to the Subcommittee that language be adopted in the new textile regulations which excludes items that are non-wearing apparel. Specifically we would list such items as Christmas Decorations, housewares, games, toys, decorative items and gift items which contain textiles and/or textiles and other types of materials. The following reasons will support the exclusion of these handicraft type products from textile quotas:

1. The amount of textile product used in manufacturing these items is insignificant in comparison to textile used in garments.
2. These items are manufactured with a high degree of labor intensive cost which could not be supplied in the United States. The same items in the United States would be outpriced and realistically could not be sold in the market place.
3. If necessary the textile product can be changed to another material (PVC-Plastic). The business remains in the undeveloped countries that can provide labor at a low cost and ways can be found to change material content. This type of business will not return to the United States.

4. The U. S. Government in the past few years has made an effort to reduce red tape and paper expenses for business. This would be a positive way to continue in that direction.

The two catalogs enclosed picture the items that are problems for our company. You can see the list of items we have in these catalogs is rather extensive. We can not afford to have these items out of stock or off sale during our selling season. We appreciate the opportunity and time this Subcommittee is taking to hear our arguments and opposition to the new Country of Origin Rules and Textile Quotas. We have long supported International Trade and feel these new rules are protectionist measures that are not in the best interest of World Trade.

Thank you for your consideration of our position.

Sincerely yours,

Neil Grant

Neil Grant
Executive Vice President

NG/kr
Enc. U.S. Customs Bulletin
House of Lloyd Toys and Gift 84 Catalog
Christmas Around the World Catalog
Product Lists A and B

This is a cover memo that will explain the attached information concerning items imported by House of Lloyd.

There is an "A" list and a "B" list for both of our catalogs. You will see on the list the Catalog Item Number, Name of the Item and the TSUSA Classification Number and description. Everything is organized for your quick reference.

T.S.U.S.A. is the abbreviation for the Tariff schedules of the United States annointed. This publication is used by Importers, Custom Brokers, Customs Officers and other interested persons to:

1. Determine the classifications and rates of duty applicable to imported articles and,
2. The requirements for reporting statistical data with respect to such imports.

We hope this material and information will be helpful in your better understanding the handcrafted articles which are made and imported into the United States.

HOUSE OF LLOYD, INC.,

LIST "A"

Articles on list "A" are items previously imported into the United States of America by House of Lloyd, Inc., under the T.S.U.S.A. Classifications as noted.

These T.S.U.S.A. item numbers are cited in General Headnote 3(G)(III)(C)(1). It is our understanding that the items on List "A" will require a " Declaration of Manufacturer, Producer, Exporter, or Importer ", and are subject to textile country of origin Criteria regardless of country of origin.

LIST "A"

House of Lloyd Toys & Gifts - '84

Catalog Item #	Item Name	T.S.U.S.A. Number	Classifications Description
T 146	Strawberry Pot Holder Set	366.7700	other furnishing of vegetable fiber, other, of cotton, other, plain woven, wholly of cotton.
T 162	Placemat Set - Napkins only	365.7865	other furnishings, ornamented, of cotton, other.
T 175	Babies Don't Keep Plaque	386.0430	Textile materials not specially provided for, ornamented, of cotton, other.
T 177	Lace Photo Frame	386.0430	
T 179	Tissue House	365.8680	other furnishings, ornamented, of man-made fiber.
T 218	Door Knob Cover	389.6270	Textile articles not specially provided for, not ornamented, of, other, man-made fibers.
Page 44	Fundraiser item		
	Calico Ornaments	389.6270	

Christmas Around the World

X 24	Stick Horse Ornaments	389.6270	
X 54	Holly Pillar Ring	389.6270	
X 58	Christmas Quilt Tree Skirt	389.6270	
X 79	'Tis the Season Knit Stocking	389.4000	Textile articles not specially provided for, not ornamented, of man-made fibers, knit.
X 109	Calico-Print Stocking	386.5050	Textile materials not specially provided for, not ornamented, of cotton.
X 130	Knit Stocking Garland	389.4000	

HOUSE OF LLOYD, INC.

LIST "B"

Articles on List "B" are items previously imported into the United states of America, by House of Lloyd, Inc., under the T.S.U.S.A. classifications as noted.

These T.S.U.S.A. item numbers are cited in General Headnote 3(G)(III)(C)(2). It is our understanding that the items on List "B" will require a "Declaration of Manufacturer, Producer, Exporter, or Importer, " and are subject to textile country of origin criteria regardles of country of origin, if such importations are:

1) Textile and apparel articles in chief value of cotton, wool, man-made fibers, or blends thereof in which those fibers, in the aggregate, exceed in value each other single component fiber thereof, or

2) textile and apparel articles in which either the cotton content or the man-made fiber content equals or exceeds 50 percent by weight of all component fibers thereof, or

3) textile and apparel articles in which the wool content exceeds 17 percent by weight of all component fibers thereof, or

4) textile and apparel articles containing blends of cotton, wool, or man-made fibers, which fibers, in the aggregate, amount to 50 percent or more by weight of all components fibers thereof.

LIST "B"

House of Lloyd Toys & Gifts - '84

Catalog Item #	Item Name	T.S.U.S.A. Number	Classifications Description
T 54	Betty Barrette Holder	386.1343	Textile articles not specially provided for, other articles, ornamented, other. of man-made fibers.
T 61	Clown Shoe Bag	386.1343	
T 106	Frosted Potpouri	386.1343	
T 162	Placemat Set - Napkin Rings only	365.8400	other furnishings, ornamented, of vegetable fibers, except cotton, other.
T 162	Placemat Set - Coasters only	366.8400	other furnishings, not ornamented, other, of vegetable fibers, except cotton, other.
T 220	Candle Wreath	386.1343	

Christmas Around the World

X 36	Holly Berry Tree Skirt	386.1343	
X 91	Baby's Stocking	386.1343	
X 110	Green Satin Stocking	386.1343	
X 111	Calico-Print Tree Skirt	386.1343	
X 121	Scented Velvet Ornaments	386.1343	
X 149	Satin Candle Wreath	386.1343	
X 153	Santa Sack Ornaments	386.1343	
X 155	Starring Bear Ornaments	386.1343	

ECONOVIEWS INTERNATIONAL, INC.
BUSINESS FORECASTS • PLANNING • TEXTILE FIBER ECONOMICS

RICHARD D. KARFUNKLE
PRESIDENT

EXPORT-IMPORT PROBLEMS
# of the
U.S. TEXTILE-FIBER ECONOMY

(A Statement submitted to the U.S. Senate Committee on Finance, Subcommitee on International Trade, which held Hearings on the State of the U.S. Textile Industry on September 18, 1984 in D.C.)

Introduction:

First, let us define the textile economy as an economic microcosm, consisting of these levels or layers of activity:

raw materials: fibers - natural or man-made; domestic or imported.

fabrication: spinning, weaving, knitting, tufting; domestic or imported.

cutting & sewing: the apparel business; domestic or imported.

end-use marketing: retailing of products; domestic or imported.

Now, let us attempt to quantify the textile-fiber economy, first using sales dollars as a parameter:

fibers...	$8.0 billion
yarns	0.5
fabrication	17.0
apparel mfg	38.0
retail sales	135.5

The above listing is approximate and incomplete. Obviously, the most accurate numbers are at retail, where, in current dollars, the U.S. consumer is spending about 6.2% of his disposable income on textile-fiber containing products, or, in constant dollars, about 9.5%.

At least 4 million workers, earning from about $5.00

U.S. apparel market were as follows:

1973	19%
1978	25%
1983	34%
1984e	41%

For another view of the ominous tendencies of imports to inundate U.S. markets, data, again from the U.S. Department of Commerce, Office of Textiles & Apparel, International Agreement and Monitoring Division, show the following:

IMPORTS OF COTTON, WOOL & MAN-MADE FIBER TEXTILES
(MILLIONS OF EQUIVALENT SQUARE YARDS)

	TOTAL	PCT.CHG.
1980	4.88	n.a.
1981	5.78	+3.5
1982	5.94	+2.8
1983	7.44	+25.3
7mos.83	4.17	+23.0
7mos.84	6.00	+43.9
1984e	10.00	+34.4

Note: e=estimated by Econoviews International, Inc.

Within the total mix, shown above, in calendar 1984, it is likely that fabric imports will rise +50%, apparel imports +22%, yarn imports +63% and made-up goods & misc. +56%.

Rates of increaase in textile-related imports by exporting country are shown below:

	1983/1982	1984/1983e
Hong Kong	+13%	+58%
Japan	+31	+27

China	+17	+33
EEC	+40	+82
Taiwan	+26	+18
S.Korea	+28	+22
Controlled	+25	+31
Uncontrolled	+27	+75
TOTAL	+25%	+43%

Longer Term Perspective

The U.S. textile economy, in concert with the macro U.S. economy, has suffered a series of traumatic "shocks" since 1973's oil dislocation. The following data comparisons put the past, present and future in a secular perspective:

	cpd.annual rates			
	1960-73	1973-79	1979-82	1985-90
GNP(72$)	4.05	2.5	-0.1	3.3
DispPersInc(72$)	4.4	2.6	1.7	3.5
Indust.Product.	5.3	2.7	-3.0	3.0
Textile Prod.	5.7	2.1	-4.7	2.0
Fiber Cons.(#)	5.3	1.1	-5.8	2.0
NonCellFibShip(#)	12.1	4.2	-8.8	3.5
TexDemandRetail(72$)	4.3	3.2	1.2	3.5

Between now and mid-decade, further cyclical expansion is expected, at both the macro U.S. and the micro textile levels, at faster than the "trend" rate shown for the 1985-90 period.

Of course,more than a less exuberant trend projection for the macro economic parameters is involved in the subdued trend for textile production and processing parameters -- namely, the continuing and growing negative textile trade balance, which may support real retail comparisons period-to-period, but can, has and will wreak havoc at certain LEVELS of the textile pipeline (i.e. apparel cutting) and in certain textile PRODUCTS (i.e. cotton T shirts).

per hour to $10.00 hour -- at retail and at the fiber producer level -- are encompassed within the textile-fiber economy. This compares to the $8.90 per hour that the average U.S. factory worker currently earns. In addition, an indeterminate number of workers owe their jobs to trade -- far more to imports than to exports.

To provide an initial feel for trade flows in the textile-fiber economy, U.S. Department of Commerce data indicate the following deleterious trends:

IMPORTS
(millions of dollars)

	1981	1982	1983	1984e
Apparel	6515	7110	8190	11050
Textiles	2155	2043	2382	3450
TOTAL	8670	9153	10573	14500
EXPORTS				
Apparel	876	629	520	495
Textiles	2935	2218	1425	1425
TOTAL	3811	2847	2348	1920
U.S. TRADE BALANCE				
Apparel	-5639	-6482	-7670	-10555
Textiles	780	176	- 554	- 2025
TOTAL	-4859	-6306	-8224	-12580

Note: e=estimated by Econoviews International, Inc.

Obviously, record levels of imports have been recorded, practically on a monthly basis, in recent quarters. Moreover, The Textile Economics Bureau reports (in the August, 1984 issue of their "Textile Organon") that imprорts as a percent share of the

MORE DIMENSIONS OF THE TEXTILE-FIBER ECONOMY

In the peak period of 1978-79, approximately 12 billion pounds of fiber and product were available for consumption in four broad end-use textile market categories:

apparel:	4.4 billion pounds
home furnishings:	3.8 billion pounds
industrial,etc. :	3.2 billion pounds
export:	0.6 billion pounds

Thus, five percent of the poundage traceable went to the export market.

Traceable imports of raw fiber and fiber manufactures averaged 1.466 billion pounds, or 12.5% of the pounds available for consumption in the U.S. textile economy in that period.

Incidentally, U.S. per caput fiber consumption reached a world record 55.6 pounds in 1978 and held at 54.1 pounds in 1979, before the period of cyclical adversity knocked it down to about 45 pounds in 1982. By mid-decade, assuming no re-emergence of discretionary income-eroding inflation, U.S. per caput fiber consumption should rebound to 58-60 pounds. At the same time, however, textile-apparel imports should account for more than 20% of domestic fiber consumption, unless, somehow, the seemingly inexorable import growth is slowed, halted and,yes, even reversed.(See Exhibit I for a detailed Fiber Summary matrix covering the period from 1976).

A TRADE MONITORING SYSTEM FOR TEXTILE & APPAREL PRODUCTS:

The U.S. Department of Labor's Bureau of Labor Statistics has produced product and employment data from 1980 to 1982, with further updates likely, that are useful in judging the impact of imports.

Bearing in mind that the cyclical peak for the textile economy occurred in mid-1979, it is not surprising to observe in these data that TEXTILE product imports (in dollars) finally declined about 11% in calendar 1982, to $2.2 billion, albeit after rising 21% in 1981. However, APPAREL product imports, such as coats, suits, shirts and outerwear, rose 19% in 1981 and an additional 10% in 1982, to reach $8.4 billion.

The adverse employment impact from 1980 to 1982 of the recession AND incremental imports was the loss of 100,000 TEXTILE jobs (SIC 22) and 105,000 APPAREL jobs (SIC 23). In particular, mens'and boys' shirts and nightwear lost almost 8,000 jobs and women's and misses' suits and coats lost 12,000 jobs.

U.S. TRADE POLICY & THE TEXTILE-FIBER ECONOMY

The U.S. textile import control program is aimed at preventing disruptive increases in imports. Article 204 of the Agricultural Act of 1956 provides the domestic authority for controlling imports through bilateral agreements. The U.S. successfully supported the extension, through July, 1986, of the Multifiber Arrangement (MFA) whihc fulfils the Section 204 requirement.

The MFA is a derogation from GATT, the General Agreement on Tariffs & Trade, providing guidelines for control of disruptive imports of (low-priced) textiles and apparel. Contrary to normal GATT rules, the MFA sanctions limiting certain imports through bilateral agreements which, currently, exist between the U.S. and important supplying countries such as Taiwan, the Republic of Korea, Hong Kong and the People's Republic of China.

During the formative stages of our textile trade policy, it was correctly assumed that the textile-apparel industryf was important to large, industrialized countries in terms of employment -- numbers and types of workers, i.e. low skilled, women, minorities, etc. It was also recognized that the industry was one of the easiest to enter in the early stages of economic growth for the spectrum of less developed and developing countries.

The situation, then as now, was recognized as a volatile one, frought with potentially disastrous gluts, market instabilitiees, bankruptices and rising unemployment in the industrialized world.

POLICY RHETORIC & INDUSTRY REALITY

While it is true that a U.S. cyclical boom acts as a magnet for imports, it also has been true from a political posturing point of view that all U.S. Presidents, certainly from Kennedy on, have, at least in oratory, come out in support of a "strong domestic textile industry" which, in the eyes of some observers, could be interpreted to mean a "lean and mean" textile economy.

In many Administrations, including President Reagan's, at one time or another, the political promise was made to relate growth in textile-apparel imports to growth -- if any -- in the domestic textile-apparel markets. The policy intent could be stated thusly: to allow the domestic industry to SHARE in any domestic market growth, rather than permit all growth and then some to be consumed by a tidal wave of imports.

But, all the statistics I've cited already indicate that a tidal wave of imported products has swept away countless domestic markets, jobs and firms within the textile economy.

Industry spokesmen are much more passionate and outspoken in their appraisal of U.S. textile trade policies; "give away" is a phrase used over and over again as specific quotas are breached again and again and quota circumventions become far more prevalent, i.e. a quota nation will ship product to a non-quota nation for a "finishing" operation before re-exporting the product to the U.S.

Clearly there is a large and destructive chasm between the views of any branch of the Administration's trade policymakers & the industry itself. There is nothing visible on the horizon yet to indicate a narrowing of this potentially calamitous gap.

CONCLUSIONS

Economic trade theory would allow (even encourage) a domestic industry to be displaced by foreign-produced products with a comparative economic advantage. Economic reality would acknowledge tha the U.S. textile pipeline is mature. Nonetheless, new capital inflows have been available when, for example, double knitting became the fabrication rage, laser technology moved into apparel cutting, the computer created fabric designs and spinning technology advanced in a quantum leap, even though the industry's profit margins generally have far below the U.S. industry average.

Legitimate comparative advantage is one thing; government subsidization of exports -- directly, or indirectly through a multi-tiered currency (as is the case with China today) or through a starvation-level wage structure-- is another.

Trade-offs are inevitable, given the political intrusion into an industry's international facets. Such trade-offs usually are expedients, from a political perspective, but inefficient and even destructive from an economic point of view.

Yes,"survival of the fittest' is a golden rule of capitalism, but long-term policy biases have so distorted the ideals of free enterprise that today's "mature" industries -- textiles, steel autos -- seemingly can only survive through the beneficence of the political system.

So, the textile economy's future, in large measure, will be a reflection of today's political policy-making AND policy-enforcement. This truism leads to two conclusions:

the U.S. textile economy will continue to struggle to survive as a below-average earnings performer;

import penetration, especially in products where there is a considerable labor-intensive value-added component, i.e. apparel, will continue, but, hopefully, at a damped pace.

EXHIBIT I

FIBER SUMMARY MATRIX

(Millions of Pounds)

	1976	1979	1983	1986e
NATURAL FIBERS-MILL CONSUMPTION	3535	3201	2980	3270
CELLULOSICS-CONSUMPTION	830	802	595	705
NON-CELLULOSICS-DOM.SHIPMENTS*	6166	7510	7066	8000
MAN-MADE FIBER WASTE CONSUMPTION	306	274	280	300
MAN-MADE FIBER IMPORTS**	192	122	195	270
AVAILABLE FOR U.S. MILL CONSUMP:				
MAN-MADE FIBERS	7457	8709	8175	9275
ALL FIBERS	11103	11909	11135	12545
NET IMPORTS OF MANUFACTURES	476	263	1230	2035
AVAILABLE FOR U.S. DOMESTIC FIBER CONSUMPTION	11579	12172	12365	14580
(IMPORTS OF ALL TEXTILES-	1255	1352	2050	3215
PCT OF DOM. FIBER CONSUMP)	10.8%	11.1%	16.6%	22.0%
POTENTIAL U.S. DOMESTIC FIBER PER CAPUT CONSUMPTION (LBS)	53.1	54.1	52.8	60.4

*Excludes textile glass
** excludes rayon staple & waste

Noncellulosics include: nylon, polyester, acrylic, spandex, olefins, etc.
Cellulosics include: rayon and acetate

e=estimated by Econoviews International, Inc.

DEPARTMENT OF THE TREASURY
U.S. CUSTOMS SERVICE
CHICAGO, ILLINOIS

REFER TO 84-26 (ENT-1) P
September 6, 1984

NORTH CENTRAL REGION PIPELINE

TO : All Brokers, Importers, Customs Officials and Other Interested Parties

SUBJECT : Customs Regulations on Textiles (T.D. 84-171)

THE FOLLOWING IS TO SERVE AS INFORMATIONAL BACKGROUND MATERIAL IN "QUESTION" AND "ANSWER" FORMAT REGARDING THE NEW CUSTOMS TEXTILE REGULATIONS PUBLISHED IN THE FEDERAL REGISTER ON AUGUST 3, 1984.

QUESTION: WHAT MERCHANDISE IS AFFECTED BY THE NEW REGULATIONS?

ANSWER: THE NEW REGULATIONS PUBLISHED BY THE UNITED STATES CUSTOMS SERVICE IN THE AUGUST 3, 1984, ISSUE OF THE FEDERAL REGISTER, AT PAGE 31248, ARE APPLICABLE TO ALL TEXTILE PRODUCTS WHICH ARE SUBJECT TO THE MULTIFIBERS ARRANGEMENT. IN GENERAL, THIS COVERS MOST PRODUCTS WHICH ARE EITHER IN CHIEF VALUE OR CHIEF WEIGHT OF COTTON, WOOL OR MAN-MADE FIBERS, OR WHICH CONTAIN OVER 17 PERCENT BY WEIGHT OF WOOL.

QUESTION: DO THE REGULATIONS APPLY TO MERCHANDISE WHICH IS PRODUCED IN COUNTRIES WITH THE UNITED STATES HAS NO TEXTILE AGREEMENT?

ANSWER: UNDER AIUTHORITY DELEGATED BY THE CONGRESS, THE PRESIDENT HAS THE POWER TO PROMULGATE REGULATIONS GOVERNING THE THE ENTRY OF TEXTILES AND TEXTILE PRODUCTS WHICH ARE SUBJECT TO A MULITILATERAL INTERNATIONAL AGREEMENT, REGARDLESS OF WHETHER THAT MERCHANDISE EMANATES FROM AN AGREEMENT COUNTRY, IN ORDER TO EFFECTUATE THE PURPOSE OF THAT AGREEMENT. IN SHORT, THE ANSWER IS YES.

QUESTION: WHAT IS THE EFFECTIVE DATE OF THE NEW REGULATIONS?

ANSWER: THE REGULATIONS ARE EFFECTIVE FOR MERCHANDISE EXPORTED FROM THE COUNTRY OF ORIGIN, AS DEFINED IN THOSE REGULATIONS, ON AND AFTER SEPTEMBER 7, 1984. HOWEVER, FOR MERCHANDISE SOLD TO A PERSON IN THE UNITED STATES PURSUANT TO A WRITTEN AND BINDING CONTRACT, OR WRITTEN PURCHASE ORDER, WHICH WAS EXECUTED PRIOR TO AUGUST 3, 1984, FOR A FIXED QUANTITY OF MERCHANDISE AND WHICH HAS NOT BEEN MATERIALLY MODIFIED ON OR AFTER THAT DATE, THE REGULATIONS, AS THEY RELATE TO THE COUNTRY OF ORIGIN AND DECLARATION REQUIREMENTS, ARE EFFECTIVE FOR SUCH MERCHANDISE EXPORTED FROM THE COUNTRY OF ORIGIN ON OR AFTER OCTOBER 31, 1984. A COPY OF SUCH CONTRACT OR PURCHASE ORDER SHALL BE PRESENTED TO CUSTOMS AT THE TIME OF ENTRY; ALONG WITH THE CERTIFICATION OF THE UNITED STATES IMPORTER OR CONSIGNEE THAT THE MERCHANDISE IS BEING IMPORTED PURSUANT TO THAT AGREEMENT.

REPLY TO REGIONAL COMMISSIONER OF CUSTOMS, CHICAGO, ILLINOIS 60603

QUESTION: IF COUNTRY "A" MANUFACTURES GARMENT PARTS AND SHIPS THOSE PARTS PRIOR TO SEPTEMBER 7, 1984, TO COUNTRY "B" FOR SHERE ASSEMBLY INTO GARMENTS, WHICH ARE THEN SHIPPSED TO THE UNITED STATES ON OR AFTER SEPTEMBER 7, 1984, ARE THE NEW REGULATIONS APPLICABLE TO THAT MERCHANDISE?

ANSWER: NO. UNDER THE NEW REGULATIONS COUNTRY "A" IS THE COUNTRY OF ORIGIN AND THE MERCHANDISE LEFT THAT COUNTRY BEFORE SEPTEMBER 7, 1984. THEREFORE, FOR MERCHANDISE THAT FALLS WITHIN THIS SITUATION, COUNTRY "B" WOULD STILL BE THE COUNTRY OF ORIGIN AND ANY QUOTA RESTRAINTS AND VISA REQUIREMENTS WHICH MAY BE APPLICABLE TO PRODUCTS OF THAT COUNTRY MUST BE SATISFIED.

QUESTION: DO THE NEW REGULATIONS RADCALLY CHANGE THE COUNTRY OF ORIGIN RULES APPLICABLE TO TEXTILES?

ANSWER: NO. THE NEW RULES OF ORIGIN ARE, FOR THE MOST PART, A CODIFICATION OF EXISTING COURT DECISIONS IN THIS AREA. THE RULES DO CONTAIN CERTA IN CHANGES THAT DO NOT DERIVE DIRECTLY FROM RECENT COURT DECISIONS. THOSE CHANGES (E.G., MERE ASSEMBLY OF COMPLETED PARTS, OR MERE DYING OR PRINTING) REFLECT THE VIEW OF THE CUSTOMS SERVICE THAT IF THE COURT HAS TO RULE ON THOSE OPERATIONS OR PROCESSES AT THIS TIME, GIVEN THE FACTS WHICH THE CRITERIA SET FORTH IN THE INTERIM REGULATIONS AND THE REQUIRED DECLARATION ARE DESIGNED TO ELICIT, THE RESULTS OF THE EARLIER COURT DECISIONS WOULD BE DIFFERENT.

QUESTION: BRIEFLY, WHAT ARE THE NEW RULES OF ORIGIN?

ANSWER: SIMPLY PUT, IN ORDER TO CHANGE THE COUNTRY OF ORIGIN OF MERCHANDISE PRODUCED IN ONE COUNTRY AND SENT TO A SECOND COUNTRY FOR PROCESSING, THE MERCHANDISE MUST BE SUBSTNTIALLY TRANSFORMED IN THE SECOND COUNTRY INTO A NEW AND DIFFERENT ARTICLE OF COMMERCE BY A SUBSTANTIAL MANUFACTURING OR PROCESSING OPERATION. CRITERIA TO BE USED IN DETERMINING IF A NEW AND DIFFERENT ARTICLE HAS EMERGED AND IF THERE HAS BEEN A SUBSTANTIAL MANUFACTURING OR PROCESSING OPERATION ARE INCLUDED IN THE REGULATIONS.

QUESTION: WILL ADDITIONAL DOCUMENTATION BE REQUIRED UNDER THE NEWS REGULATION?

ANSWER: IN ORDER FOR STHE CUSTOMS SERVICE TO DETERMINE THE PROPER COUNTRY OF ORIGIN OF IMPORTED TEXTILES AND TEXTILE PRODUCTS, THE REGULATIONS REQUIRE THAT A DECLARATION CONTAINING PERTINENT INFORMATION MUST BE FILED WITH EACH IMPORTATION. THE FORMAT TO BE USED AND INFORMATION REQUIRED ARE EXPRESSLY SET OUT IN THE REGULATIONS. THESE DECLARATIONS MAY BE SIGNED BY THE MANUFACTURER, EXPORTED, OR IMPORTER. IF ALL THE INFORMATION CALLED FOR BY THE DECLARATION CANNOT BE SUPPLIED, THE IMPORTER WILL SUBMIT A CERTIFICATION ATTESTING TO THE FACT THAT AFTER THE EXERCISE OF DUE DILIGE NCE THE IMPORTER IS UNABLE TO PROVIDE FURTHER INFORMATION. IN THAT EVENT, CUSTOMS WILL UTILIZE THE BEST INFORMATION AVAILABLE, INCLUDING THE EXPERIENCE OF DOMESTIC INDUSTRY, TO DETERMINE THE COUNTRY OF ORSIGIN OF THE IMPORTED MERCHANDISE.

QUESTION: IF EXPENSIVE FABRIC IS EXPORTED FROM COUNTRY "A" TO COUNTRY "B," WHERE IT IS CUT AND SEWN BY CHEAP LABOR INTO GARMENTS, WHAT IS THE COUNTRY OF ORIGIN?

ANSWER: COUNTRY B. THE NEW RULES MAKE NO CHANGE IN THIS SITUATION. THE FACTS MAKE CLEAR IN THIS INSTANCE THAT THE MATERIAL WAS SUBSTANTIALLY TRANSFORMED INTO A NEW AND DIFFERENT ARTICLE OF COMMERCE BY A SUBSTANTIAL MANUFACTURING OPERATION. IT SHOULD BE REMEMBERED THAT COSTS OF MATERIAL IS ONLY ONE OF SEVEN LISTED CRITERIA AND, AS THE REGULATIONS STATE, ANY ONE, OR ALL OF THE CRITERIA OR ADDITIONAL CRITERIA MAY BE CONSIDERED. THE FACT THAT THE COST OF THE FABRIC MAY EXCEED THE TOTAL COSTS OF ALL SUBSEQUENT OPERATIONS DOES NOT DETRACT, IN THIS INSTANCE, FROM THE REALITY THAT THE GARMENTS CAME INTO EXISTANCE IN COUNTRY "B."

QUESTION: UNDER THE NEW REGULATIONS, ARE UNITED STATES COMPONENTS WHICH ARE SENT ABROAD FOR ASSEMBLY OR PROCESSING NOW CONSIDERED ON THEIR RETURN TO BE PRODUCTS OF THE UNITED STATES?

ANSWER: THE PROVISO CONTAINED IN SECTION 12.130(A) OF THE NEW REGULATIONS, THAT THE ORIGIN RULES DO NOT CHANGE THE "FOREIGN ARTICLE" STATUS OF TEXTILES AND TEXTILE PRODUCTS UNDER HEADNOTE 2, PART 1, SCHEDULE 8, TARIFF SCHEDULES OF THE UNITED STATES, IS INTENDED TO ENSURE THAT PRODUCTS OF THE UNITED STATES, WHICH HAVE BEEN RETURNED AFTER FURTHER PROCESSING OR MANFACTURING ABROAD WILL CONTINUE TO BE CONSIDERED PRODUCTS OF THE COUNTRY IN WHICH THAT PROCESSING OR MANUFACTURE TOOK PLACE. THE EXISTING PRACTICE OF TREATING SUCH ARTICLES IN THIS MANNER HAS NOT BEEN CHANGED BY NEW REGULATIONS. THE NECESSITY OF MAINTAINING THIS PRACTICE IS BASED UPON THE CLEAR LEGISLATIVE INTENT EXPRESSED IN HEADNOTE 2, PART 1, SCHEDULE 8, WHICH STATES THAT SUCH AN ARTICLE BE TREATED AS A "FOREIGN ARTICLE." IN ADDITION, THE AGREEMENTS BETWEEN THIS COUNTRY AND FOREIGN COUNTRIES ARE NEGOTIATED WITH THE UNDERSTANDING THAT SUCH PRODUCTS WILL BE SUBJECT TO THOSE AGREEMENTS.

QUESTION: MUST THE MERCHANDISE WHICH IS SUBJECT TO THE NEW REGULATIONS BE LABELED OR MARKED IN ACCORDANCE WITH THE NEW RULES OF ORIGIN?

ANSWER: AS STATED ABOVE, THE ORIGIN RULES SET FORTH IN THE TEXTILES REGULATIONS WERE DERIVED PRINCIPALLY FROM COURT DECISIONS, SOME OF WHICH WERE CONCERNED WITH THE MARKING OR LABELLING OF MERCHANDISE. ACCORDINGLY, THE ORIGIN PRINCIPLES STATED BY THE COURT AND CODIFIED IN THE REGULATIONS WILL BE FOLLOWED BY THE CUSTOMS SERVICE IN MARKING DECISIONS INVOLVING ALL TEXTILES.

QUESTION: PIECE GOODS ARE SENT FROM TAIWAN TO MEXICO, WHERE THEY ARE CUT AND ASSEMBLED INTO COMPLETED GARMENTS. IS MEXICO THE COUNTRY OF ORIGIN? AS A RELATED QUESTION - IF PIECE GOODS ARE SENT FROM TAIWAN MARKED WITH CUTTING LINES OR LINES OF DEMARCATION FOR THE MATERIAL TO BE CUT AND ASSEMBLED IN MEXICO, IS MEXICO THE COUNTRY OF ORIGIN? IS THE COST OF THE FABRIC RELEVANT TO THESE DETERMINATIONS?

ANSWER: THE PROCESSING OF UNMARKED FABRIC IN A COUNTRY WHICH MANUFACTURES THAT FABRIC INTO A COMPLETED GARMENT INVOLVES BOTH SUBSTANTIAL MANUFACTURING PROCESS TO MAKE THE GARMENT AND SUBSTANTIALLY TRANSFORMS THAT FABRIC. ACCORDINGLY, IN THE FIRST PORTION OF THE QUESTION, THE ANSWER IS MEXICO. THE SECOND ISSUE IS MORE COMPLEX AND WE DO NOT BELIEVE THAT SUFFICIENT INFORMATION IS AVAILABLE FOR A RESPONSE. THIS IS AN INSTANCE WHERE THE INFORMATION, INCLUDING THE COST OF THE FABRIC. REQUIRED TO BE SUBMITTED ON THE NECESSARY DECLARATION, SECTION 12.130(C)(2) OF THE NEW REGULATIONS, IS NECESSARY FOR CUSTOMS TO DETERMINE WHICH OF THE CRITERIA SET OUT IN SECTION 12.130(B)(2) SHOULD BE CONSIDERED IN DECIDING THE COUNTRY OF ORIGIN OF THE MERCHANDISE.

QUESTIONS: YARN IS WOVEN INTO FABRIC IN JAPAN AND SENT TO HONG KONG FOR CUTTING. THE COMPONENTS ARE THEN SENT TO HAITI FOR ASSEMBLY. WHICH COUNTRY IS THE COUNTRY OF ORIGIN. WOULD IT MAKE A DIFFERENCE IF THE PIECE GOODS SENT FROM JAPAN TO HONG KONG WERE PRE-MARKED FOR CUTTING?

ANSWER: IT IS DIFFICULT TO RESPOND TO THE FIRST PART OF THIS QUESTION WITHOUT SAMPLES AND, AT THE VERY LEAST, MORE FACTS. WHERE UNMARKED FABRIC IS SENT TO A SECOND COUNTRY FOR CUTTING INTO COMPONENTS, THAT WOULD USUALLY RESULT IN THE SECOND COUNTRY BEING THE COUNTRY OF ORIGIN OF THOSE COMPONENTS AND AN ASSEMBLY, BY ITSELF, IN A THIRD COUNTRY, AS STATED IN THE INTERIM REGULATIONS, SECTION 12.130(B)(1)(II), WOULD NOT NORMALLY CHANGE THE COUNTRY OF ORIGIN OF THOSE COMPONENTS.

IN THE ALTERNATE SITUATION, FABRIC WOVEN AND MARKED FOR CUTTING IN ONE COUNTRY, CUT IN A SECOND COUNTRY, AND ASSEMBLED IN A THIRD COUNTRY, THE ANSWER IS THAT THE FIRST COUNTRY IS THE COUNTRY OF ORIGIN. SECTION 12.130(B)(1)(III) PROVIDES THAT MERLY CUTTING OF MATERIAL PREVIOUSLY MARKED WILL NOT CHANGE THE COUNTY OF ORIGIN, OF THAT THAT MERCHANDISE AND, AS STATED ABOVE, ASSEMBLY, BY ITSELF, OF CUT COMPONENTS IS ALSO NOT SUFFICIENT TO CHANGE THE COUNTRY OF ORIGIN. THE ESSENSE OF THE IMPORTED ARTICLE CAME INTO BEING IN THE COUNTRY WHERE THE FABRIC WAS MADE AND MARKED IN A COMMERCIALLY MEANINGFUL MANNER.

QUESTION: DO THE NEW REGULATIONS APPLY TO NO-MFA PRODUCTS SUCH AS APPAREL MANUFACTURED FROM SILK, LINEN AND RAMIE?

ANSWER: THE REGULATIONS DO NOT DIRECTLY APPLY TO PRODUCTS NOT COVERED BY THE MULTIFIBERS ARRANGEMENT, WHICH IS AN INTERNATIONAL AGREEMENT TO WHICH THE UNITED STATES IS A SIGNATORY. THE PRESIDENT'S AUTHORITY TO PROMULGATE THESE REGULATIONS DERIVES FROM SECTION 204, AGRICULTURAL ACT OF 1956 (7 U.S.C. 1854), WHICH EXTENDS ONLY TO MERCHANDISE WHICH IS COVERED BY THE MFA. HOWEVER, SINCE THE PRINCIPLES IN THE REGULATIONS USED TO DETERMINE THE ORIGIN OF MERCHANDISE WERE TAKEN FROM COURT DECISIONS, THOSE PRINCIPLES WILL BE APPLIED TO ALL TEXTILES AND TEXTILE PRODUCTS. IT SHOUD BE NOTED THAT IF A DISTRICT DIRECTOR IS UNSURE WHETHER THE NEW REGULATIONS ARE APPLICABLE TO CERTAIN MERCHANDISE, HE MAY REQUEST ANY INFORMATION HE DEEMS APPROPRIATE UNDER THE AUTHORITY OF 19 U.S.C. 1481.

QUESTION: DO THE NEW REGULATIONS COVER TEXTILE AND APPAREL PRODUCTS FROM ALL COUNTRIES, INCLUDING THE EUROPEAN COMMUNITY AND CANADA?

ANSWER: YES. IN SECTION 204 OF THE AGRICULTURAL ACT OF 1956, CONGRESS SPECIFICIALLY GRANTED AUTHORITY FOR THE PRESIDENT TO ISSUE REGULATIONS GOVERNING THE ENTRY OF ARTICLES SUBJECT TO A MULTINATIONAL AGREEMENT (IN THIS CASE, THE MFA) WHICH ARE THE PRODUCTS OF COUNTRIES NOT PARTIES TO THE AGREEMENT. THIS IS IN ADDITION TO THE AUTHORITY GIVEN TO THE PRESIDENT TO ISSUE REGULATIONS GOVERNING THE ENTRY OF MERCHANDISE TO CARRY OUT SPECIFIC AGREEMENTS BETWEEN THE UNITED STATES AND FOREIGN GOVERNMENTS, I.E., THE MFA AND BILATERAL TEXTILE AGREEMENTS.

QUESTION: ARE THE NEW COUNTRY OF ORIGIN REGULATIONS APPLICABLE FOR MARKING PURPOSES AS WELL AS QUOTA PURPOSES?

ANSWER: YES. AS STATED ABOVE, THE ORIGIN PRINCIPLES EMBODIED IN THE REGULATIONS ARE DERIVED FROM COURT CASES. SOME OF THOSE CASES INVOLVED THE MARKING STATUTE AND REGULATIONS, ACCORDINGLY, CUSTOMS BELIEVES THOSE COURT DECISIONS AS CODIFIED IN THE REGULATIONS SHOULD BE APPLIED TO ALL TEXTILES AND TEXTILE PRODUCTS.

QUESTION: HOW FAR BACK IN THE CHAIN OF MANUFACTURING MUST AN IMPORTER GO TO MEET THE DECLARATION REQUIREMENTS UNDER THE NEW REGULATIONS. FOR EXAMPLE, ASSUME COTTON FROM PAKISTAN IS SPUN INTO YARN IN JAPAN, WOVEN INTO FABRIC IN TAIWAN, SENT TO HONG KONG FOR CUTTING AND TO HAITI FOR SEWING. AT WHAT POINT MAY THE DECLARATION STOP? THE COMPONENTS, THE FABRIC, THE YARN OR THE ORIGINAL COTTON? ARE SEPARATE DECLARATIONS REQUIRED FOR EACH COUNTRY?

ANSWER: THE CUSTOMS SERVICE BELIEVES THAT IT SHOULD TAKE A FLEXIBLE POSITION IN REGARD TO THE INFORMATION REQUIRED ON A DECLARATION. IN MOST INSTANCES, AN EXAMINATION OF THE FIBERS WHICH MAKE UP THE YARN IN A FABRIC USED IN A GARMENT IS NOT NECESSARY TO DETERMINE THE COUNTRY OF ORIGIN OF THAT GARMENT. GENERALLY, IN REGARD TO COMPLETED ARTICLES, SUCH AS GARMENTS, THE INFORMATION ON THE DECLARATION SHOULD GO BACK AT LEAST AS FAR AS THE MANUFACTURE OF THE FABRIC. THEREFORE, IN THE EXAMPLE GIVEN, THE PROCESSING IN PAKISTAN AND JAPAN NEED NOT BE STATED ON THE DECLARATION. HOWEVER, IF THE FABRIC WAS MARKED WITH CUTTING LINES IN TAIWAN, THEN ALL THE PROCESSES OR MANUFACTURING OPERATIONS PERFORMED IN TAIWAN SHOULD BE STATED SO THAT CUSTOMS WILL HAVE SUFFICIENT INFORMATION TO DETERMINE IF THE ARTICLE HAS THE GROWTH, PRODUCE, OR MANUFACTURE OF TAIWAN. SEPARATE DECLARATIONS FROM EACH COUNTRY INVOLVED IN THE MANUFACTURE OF A FABRIC OR ARTICLE ARE NOT REQUIRED BY THE REGULATIONS.

QUESTION: IN AN 807 ASSEMBLY OPERATION, IS THE UNITED STATES THE COUNTRY OF ORIGIN?

ANSWER: NO. THE PROVISO CONTAINED IN SECTION 12.130(A) OF THE NEW REGULATIONS, THAT THE ORIGIN RULES DO NOT CHANGE THE "FOREIGN ARTICLE" STATUS OF TEXTILES AND TEXTILE PRODUCTS UNDER HEADNOTE 2, PART 1, SCHEDULE 8, TARIFF SCHEDULES OF THE UNITED STATES, IS INTENDED TO ENSURE THAT PRODUCTS OF THE UNITED STATES WHICH HAVE BEEN RETURNED AFTER FURTHER PROCESSING OR MANUFACTURE ABROAD WILL CONTINUE TO BE CONSIDERED PRODUCTS OF THE COUNTRY IN WHCH THAT PROCESSING OR MANUFACTURE TOOK PLACE. THE EXISTING PRACTICE OF TREATING SUCH ARTICLES IN THIS MANNER HAS NOT BEEN CHANGED BY NEW REGULATIONS. THE NECESSITY OF MAINTAINING THIS PRACTICE IS BASED UPON THE CLEAR LEGISLATIVE INTENT EXPRESSED IN HEADNOTE 2, PART 1, SCHEDULE 8, WHICH STATES THAT SUCH AN ARTICLE BE TREATED AS A "FOREIGN ARTICLE". IN ADDITION, THE DEPARTMENT OF COMMERCE HAS INDICATED THAT THE TEXTILE AGREEMENTS BETWEEN THIS COUNTRY AND FOREIGN COUNTRIES IN WHICH 807 ASSEMBLY OPERATIONS TAKE PLACE ARE NEGOTIATED WITH THE UNDERSTANDING THAT SUCH PRODUCTS WILL BE SUBJECT TO THOSE AGREEMENTS.

QUESTION: IN AN 807 ASSEMBLY OPERATION, IS THE IMPORT CONSIDERED TO BE WHOLLY THE GROWTH PRODUCT OR MANUFACTURE OF A SINGLE COUNTRY FOR PURPOSES OF THE DECLARATION, OR IS IT CONSIDERED TO BE MANUFACTURED OR PROCESSED IN MORE THAN ONE COUNTRY?

ANSWER: HEADNOTE 2, PART 1, SCHEDULE 8, TSUS, CITED IN THE PREVIOUS ANSWER, PROVIDES THAT A PRODUCT OF THE UNITED STATES WHICH IS RETURNED AFTER HAVING BEEN ADVANCED IN VALUE OR IMPROVED IN CONDITION ABROAD BY HAVING BEEN ASSEMBLED ABROAD IN WHOLE OR IN PART OF PRODUCTS OF THE UNITED STATES, SHALL BE TREATED AS A FOREIGN ARTICLE. SINCE, UNDER THAT HEADNOTE, SUCH AND ARTICLE IS AUTOMATICALLY A FOREIGN PRODUCT, CUSTOMS BELEIVES THAT THE WORDS PERTAINING TO THE DECLARATION REQUIRED BY SECTION 12.130(C)(1), "WHOLLY THE GROWTH, MANUFACTURE, OR PRODUCT, OF A SINGLE FOREIGN TERRITORY OR COUNTRY OR INSULAR POSSESSION", MAY INCLUDE MERCHANDISE SUBJECT TO AN 807 ASSEMBLY OPERATION IF ALL THE PROCESSING, MANUFACTURE, ASSEMBLY OPERATIONS, AND ALL THE MATERIALS WERE INCURRED IN OR DERIVED FROM THE UNITED STATES AND THE ASSEMBLY COUNTRY. IF A THIRD COUNTRY SUPPLIED MATERIALS AND/OR PROCESSED OR WAS OTHERWISE INVOLVED WITH THE COMPLETION OF THE ARTICLE, THAT ARTICLE WOULD NOT BE CONSIDERED TO BE WHOLLY THE GROWTH, MANUFACTURE, OR PRODUCT OF A SINGLE COUNTRY.

QUESTION: YARN IS PRODUCED IN HONG KONG AND SENT TO CHINA WHERE IT IS KNIT INTO PANELS. IT IS THEN SHIPPED BACK TO HONG KONG FOR ASSEMBLY AND FINISHING. WHAT IS THE COUNTRY OF ORIGIN? IS THE RELATIVE COST OF YARN PRODUCTION RELEVANT TO THE COUNTRY OF ORIGIN DETERMINATION. IF SO, HOW?

ANSWER: CHINA. IT IS OUR VIEW THAT IN THIS SITUATION, THE ESSENCE OR ESSENTIAL CHARACTER OF THE IMPORTED ARTICLE ORIGINATED IN CHINA WHERE THE PANELS WERE FORMED BY WHAT IS CLEARLY A SUBSTANTIAL MANUFACTURING PROCESS. CHINA IS THE COUNTRY WHERE THE ARTICLE, IN FACT, TOOK SHAPE. IT IS NOT NECESSARY TO CONSIDER THE COST OF YARN PRODUCTION IN THIS SITUATION SINCE THERE ARE OTHER CRITERIA IN SECTION 12.130(B)(2) WHICH ARE CLEARLY DETERMINATIVE.

QUESTION: COMPONENT PARTS FROM TWO COUNTRIES ARE ASSEMBLED IN A THIRD COUNTRY. IS THE THIRD COUNTRY THAT COUNTRY OF ORIGIN? IF NOT, WHAT IS THE COUNTRY OF ORIGIN AND HOW IS IT DETERMINED? WHAT IF THE COMPONENTS ARE THE SAME IN ALL MATERIAL RESPECTS AND OF EQUAL VALUE?

ANSWER: THERE IS INSUFFICIENT INFORMATION TO ANSWER ANY OF THE ISSUES POSED IN THIS QUESTION. IN RESPONSE TO THE LAST ISSUE, HOWEVER, SOME COMMENT APPEARS DESERVED. IT MAY BE POSSIBLE THAT IF ALL THE COMPONENTS OF THE RIGHT SIDE OF A PAIR OF JEANS WERE MADE IN COUNTRY A, ALL THE COMPONENTS OF THE LEFT SIDE WERE MADE IN COUNTRY B, THE ZIPPER AND OTHER INCIDENTALS WERE MADE IN COUNTRY C, AND THE GARMENT WAS ENTIRELY ASSEMBLED AND FINISHED IN COUNTRY D, ALL OTHER FACTORS BEING EQUAL, THE COUNTRY OF ORIGIN COULD, CONCEIVABLY, BE COUNTRY D. THE RATIONALE BEHIND SUCH A DETERMINATION IS THAT, IF THAT TYPE OF SITUATION DID EXIST, THE ASSEMBLY AND FINISHING INTO A COMPLETED GARMENT, WHEN TAKEN IN THE CONTEXT OF THE ENTIRE MANUFACTURE OF THE GARMENT, AMOUNTED TO A SUBSTANTIAL MANUFACTURING PROCESS THAT SUBSTANTIALLY TRANSFORMED THE COMPONENTS OF TWO OR MORE COUNTRIES INTO A COMPLETED ARTICLE, THE ESSENCE OF WHICH DID NOT EXIST PRIOR TO THAT ASSEMBLY. THEREFORE, WHAT WAS DONE IN COUNTRY D MAY BE CONSIDERED MORE THAN A MERE ASSEMBLY.

QUESTION: HOW ARE NONTEXTILE MATERIALS TREATED IN THE COUNTRY OF ORIGIN DETERMINATION? SUPPOSE NONTEXTILE MATERIALS FROM A SECOND COUNTRY ARE SENT TO A THIRD COUNTRY FOR ASSEMBLY. WOULD THE COUNTRY OF ORIGIN BE DIFFERENT THAN IF TEXTILE MATERIALS WERE SENT FROM THE TWO COUNTRIES TO THE THIRD COUNTRY FOR ASSEMBLY?

ANSWER: NONTEXTILE MATERIALS IN AN IMPORTED ARTICLE ARE TREATED THE SAME AS TEXTILE MATERIALS FOR THE PURPOSES OF THE REGULATIONS. BOTH ARE REQUIRED TO BE REPORTED ON THE DECLARATION REQUIRED IN SECTION 12.130(C)(2). THE SECOND ISSUE PRESENTED IS NOT CLEAR WITHOUT A SPECIFIC FACTUAL SITUATION ON WHICH WE CAN FOCUS.

QUESTION: WHAT IS THE DEFINITION OF FULLY COMPLETED COMPONENT PARTS?

ANSWER: THE LANGUAGE YOU ARE REFERRING TO CONTAINED IN SECTION 12.130(B)(1)(II) AND DOES NOT INCLUDE THE WORD "FULLY". THAT SECTION STATES, IN ESSENCE, THAT MERE ASSEMBLY OF "OTHERWISE COMPLETED PARTS" WILL NOT CONSTITUTE A SUBSTANTIAL TRANSFORMATION. WHAT CONSTITUTES "OTHERWISE COMPLETED PARTS" WILL, OF NECESSITY, BE DETERMINED ON A CASE BY CASE BASIS. OBVIOUSLY, NORMAL REQUIRED TRIMMING OF COMPONENT PARTS INVOLVED IN AN ASSEMBLY WILL NOT PREVENT THOSE PARTS FROM BEING "OTHERWISE COMPLETED".

QUESTIONS: ASSUME THAT A PRODUCT IS CUT IN TAIWAN AND ASSEMBLED IN COSTA RICA AND THAT TAIWAN IS THE COUNTRY OF ORIGIN. ASSUME ALSO THAT THE COMPONENT PARTS ARE CLASSIFIED IN DIFFERENT TEXTILE CATEGORY THAN THE COMPLETED GARMENT. MUST AN EXPORT LICENSE AND VISA BE OBTAINED FOR THE PARTS CATEGORY OR THE FINISHED GARMENTS CATEGORY?

ANSWER: THE QUOTA STATUS AND THE REQUIREMENTS FOR A VISA OR EXPORT LICENSE ACCRUES AT THE TIME OF IMPORTATION INTO THE UNITED STATES., WE DO NOT CLASSIFY COMPONENT PARTS WHICH ARE SHIPPED FROM ONE FOREIGN COUNTRY TO ANOTHER FOREIGN COUNTRY, NOR DO WE DETERMINE THE QUOTA, VISA, OR EXPORT LICENSE REQUIREMENTS OF MERCHANDISE EXPORTED FROM ONE FOREIGN COUNTRY TO ANOTHER FOREIGN COUNTRY. A VISA OR EXPORT LICENSE WILL BE REQUIRED FOR THE MERCHANDISE IN ITS CONDITION AS IMPORTED INTO THE UNITED STATES.

QUESTION: WILL "TRIM" (E.G., UNDERLININGS, LOOPS, BUTTONS, SHAYS, TAPES, ZIPPERS, ETC.) BE CONSIDERED IN DETERMINING COUNTRY OF ORIGIN? ARE DOCUMENTARY REQUIREMENTS EQUALLY APPLICABLE TO TRIM?

ANSWER: AGAIN, THIS IS SOMETHING THAT MUST BE CONSIDERED ON A CASE-BY-CASE BASIS. GENERALLY, MINOR COMPONENTS FROM COUNTRIES NOT DIRECTLY CONCERNED WITH THE MORE SUBSTANTIAL MANUFACTURING OR PROCESSING OPERATIONS PERFORMED ON AN ARTICLE OR ON MORE IMPORTANT COMPONETS IN AN ARTICLE NEED NOT BE REPORTED ON THE DECLARATION. HOWEVER, IF FINDINGS AND OTHER MINOR COMPONENTS ORIGINATE IN A COUNTRY WHERE THE MORE SUBSTANTIAL MANUFACTURING OR PROCESSING OPERATIONS OCCUR, THEN THEY WILL BE CONSIDERED AND SHOULD BE REPORTED ON THE DECLARATION.

QUESTION: DO ENTRIES FOR IMMEDIATE TRANSPORTATION WITHOUT APPRAISEMENT REQUIRE AN ORIGINAL OR A COPY OF THE VISA OR EXPORT LICENSE TO BE SUBMITTED AT THE PORT OF ARRIVAL?

ANSWER: A COPY OF THE ORIGINAL [illegible] EXPORT LICENSE MAY BE SUBMITTED AT THE PORT OF ARRIVAL.

QUESTION: DO THE NEW REGULATIONS ON IMMEDIATE TRANSPORTATION WITHOUT APPRAISEMENT APPLY TO AIR SHIPMENTS STOPPING IN A U.S. CITY PRIOR TO ARRIVAL AT THE AIRPORT WHERE THE GOODS ARE ACTUALLY ENTERED?

ANSWER: YES ; HOWEVER, INSPECTION OF THE IMPORTED MERCHANDISE AT THE PORT OF ARRIVAL WILL BE DONE ON A SELECTIVE BASIS.

QUESTION: ARE THESE NEW REGULATIONS FINAL?

ANSWER: THESE ARE INTERIM REGULATIONS, WHICH WILL GO INTO EFFECT SEPTEMBER 7, 1984. ALL INTERESTED PARTIES ARE INVITED TO SUBMIT THEIR COMMENTS ON THE REGULATIONS, IN TRIPLICATE, ON OR BEFORE OCTOBER 2, 1984. ALL COMMENTS WILL BE FULLY CONSIDERED AND, WHERE WARRANTED, APPROPRIATE CHANGES WILL BE MADE.

for
Bruce E. Benedict
Deputy Assistant Regional Commissioner
(Classification and Value)

TELEPHONE 840-3111

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S. Shamash & Sons Inc.
42 West 39th Street
New York, N.Y. 10018
IMPORTERS - EXPORTERS

September 17, 1984

U.S. Senate Finance Committee
Subcommittee on International Trade
U.S. Capitol, Washington, D.C.

Dear Sirs,

RE: Sec. 204 Rules of Origin
Executive Order 12475 of May 9, 1984
Regulation 12130, Paragraph B

The new regulations that includes the fabrics that are dyed and printed is unfair and flaunts every law and the fairness of American justice.

The reason given by our government for the implementation of these new regulations is that there has been flagrant violations of the previous law, although no significant evidence to support the inclusion of fabrics in this regulation has been produced.

S. Shamash & Sons,inc., who have been exporting and importing fabrics since 1947, is a member of the U.S. Department of Commerce. To our knowledge there have been no violations in our last 34 years of doing business of existing law.

We believe the inclusion of fabrics is strictly a political ploy which serves none, and only harms the interest of the U.S.A. among its global partners. Most fabrics that are produced in the Far East are in the greige or unfinished state and are shipped to developed countries such as England, France, Germany, Italy and Japan where they are dyed and finished and are considerably higher priced than fabrics found in the U.S.A., and are sold at prices that are from two to six times higher than U.S.A. fabrics. This does not create any substantial increase of imports because of higher prices, and these imported fabrics are basically sold to the couturier trade which is relatively a small segment of the apparel industry.

The U.S. exporter of fabrics is also harrassed by the new ruling since many greige fabrics imported into the U.S.A. are domestically dyed, printed and finished for the export market.

We believe the law was hastily written without thought, and will damage our relationship both in the East and West. The present law shculd be rescinded and rewritten more carefully so as to address only the fraudulent practices that the government contends now exist.

Yours very sincerely,

S. Shamash & Sons,inc.

Jack Shamash, President